

Aguirre & Patterson, Inc.

REAL ESTATE APPRAISERS
JOE W. PATTERSON, MAI, SRA

BETO R. AGUIRRE, Associate
CONNIE C. FIELDER, Associate
JOE E. CHEANEY, Associate
BILLY G. DOYLE, Associate
KIM E. RANSON, Associate
TISH KEATING, Associate
JAIME J. AGUIRRE, Associate

CHRIS THOMPSON, Associate
ELIZABETH RUBIO, Associate
IRENE B. THOMPSON, Associate
BRIAN K. PAYNE, Associate
GRISelda GUERRERO, Associate
CAREN RAMIREZ, Associate
JULE KIRBY, Associate

October 13, 2014

Mr. Rene Campos
PHARR-SAN JUAN-ALAMO ISD
601 East Kelley Avenue
Pharr, Texas 78577

RE: Retrospective Appraisal Report of the Textbook Building located at 714 E. US Business Highway 83, Pharr, Texas 78577.

Dear Mr. Campos:

In accordance with your request, we submit an appraisal report of the above referenced property, which is identified on page 11 of the attached report. The property was inspected on September 29, 2014.

The purpose of the appraisal is to provide the appraisers' opinion of the retrospective market value estimate of the subject property as of the effective date indicated in the appraisal and according to the definitions contained in the written report and subject to the Underlying Assumptions and Limiting Conditions contained herein. This appraisal is intended to conform to the generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice.

As a result of the appraisal and analysis, it is the appraisers' opinion that the retrospective market value of the subject, as of February 1, 2012, excluding FF&E, was as follows:

FOUR HUNDRED AND THIRTY THOUSAND DOLLARS
(\$430,000.00)

Based upon the appraisers' analysis of past events assuming a competitive and open market, the appraisers estimate a reasonable marketing period for this type of property at the market value estimated in this report to not exceed twenty-four months.

Based upon the appraisers' analysis of past events assuming a competitive and open market, the appraisers estimate a reasonable exposure period for this type of property at the market value estimated in this report would not have exceeded twenty-four months.

Inter National Bank
October 13, 2014

The supporting data and the analysis and conclusions upon which this value is based are contained in the accompanying report.

Respectfully submitted,



Joe Patterson, MAI, SRA
President, TX-1321595-G



Irene B. Thompson
Associate, TX-1336175-G

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CERTIFICATION

I certify that, to the best of my knowledge and belief:

- ✓ The statements of fact contained in this report are true and correct.
- ✓ The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- ✓ I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- ✓ I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- ✓ My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- ✓ My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- ✓ I have not performed an appraisal related service of the subject property within the three years prior to this assignment.
- ✓ The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute.
- ✓ The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- ✓ The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- ✓ I have (or have not) made a personal inspection of the property that is the subject of this report.
- ✓ No one provided significant real property appraisal assistance to the persons signing this certification.
- ✓ As of the date of this report, Joe W. Patterson, MAI, SRA has completed the continuing education program of the Appraisal Institute.



Joe Patterson, MAI, SRA
TX-1321595-G
Signed: October 13, 2014

___ Did X Did Not Physically
Inspect the Property



Irene B. Thompson
TX-1336175-G
Signed: October 13, 2014

X Did ___ Did Not Physically
Inspect the Property

SUMMARY OF IMPORTANT DATA

TYPE PROPERTY: Existing Educational Building

LOCATION: 714 E. US Business Highway 83, Pharr, Texas 78577

DESCRIPTION: The subject consists of a building that is commonly referred to as the Textbook Building. The appraiser's value estimate is for the building only. No land component is included in the retrospective value opinion. The building was originally constructed of brick veneer over concrete block perimeter walls, on a grade-level concrete slab foundation with a modified built-up roof in the 1960's or 1970's. The exact date is unknown. The interior of the building was partitioned into approximately 9,212 square feet of air conditioned classroom area; and 4,557 square feet of automotive/maintenance shop area. It is understood that the subject building was not in use as of the effective date.

SITE SIZE: Not applicable. At the request of the client, the appraiser's retrospective value opinion includes the building value only.

ZONING: PSJA (school use).

RETROSPECTIVE MARKET VALUE OPINION\$430,000.00

EFFECTIVE DATE OF RETROSPECTIVE MARKET VALUE OPINIONFebruary 1, 2012

COMMENTS REGARDING EFFECTIVE DATE: The client has requested the appraisers provide a retrospective value opinion of the subject building. A Retrospective Value is defined as "a value opinion effective as of a specified historical date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific prior date."¹

PRESENT USE/USE APPRAISED: As of the effective date, the subject was improved with a classroom/shop building. The appraisers' value estimate reflects the highest and best use.

MARKETING PERIOD: With adequate advertising, exposure and aggressive marketing, the appraisers estimate the marketing period not to exceed twenty-four months. This is based primarily on marketing data presented in the Multiple Listing Service and the appraisers' knowledge of this particular submarket.

EXPOSURE PERIOD: Based upon the appraisers' analysis of past events assuming a competitive and open market, the appraisers estimate a reasonable exposure period for this type of property at the market value estimated in this report would not have exceeded twenty-four months.

TERMS: Typical terms would be 10% to 30% down; 5% to 10% interest rate; amortized over a period of 15 to 30 years; term of 3 to 30 years.

¹ The Dictionary of Real Estate Appraising, 5th Edition, The Appraisal Institute: Chicago, IL, 2010.

SUMMARY OF IMPORTANT DATA (continued)

ENVIRONMENTAL CONCERNS: The appraisers have been informed that the subject building had asbestos containing material as of the effective date of the retrospective value opinion. According to an Asbestos Survey Report dated May 9, 2011, conducted by Envirotest, Ltd. ACM was discovered in the HVAC Insulation Mastic, the floor tile and mastic, the exterior vapor barrier, and the exterior transite panels. The asbestos-containing material was reported to be in good condition and considered non-friable. An assumption is made by the appraisers that as of the effective date, the condition of the ACM was the same.

OWNERSHIP HISTORY: According to the Hidalgo County Appraisal District, the current owner of record is PSJA ISD. The subject does not appear to have changed ownership not been listed for sale through the local MLS within the past three years. The further information was discovered by the appraisers in the normal course of business.

PERSONAL PROPERTY: This appraisal does not include furniture, fixtures, or equipment in the market value estimate. The exclusion of these items is estimated to have no impact on the market value estimate. The appraisal does not include any intangible items such as trademarks or good will.

TAXES: The subject property is owed by a tax exempt entity.

MARKET TRENDS: Signs of recent sales activity and increased lending indicate that the local real estate market is recovering from a stagnant economic climate. This trend of recovery is expected to continue.

PERTINENT INFORMATION: No environmental study as of the effective date was provided.

STATEMENT OF COMPLIANCE: This appraisal is intended to conform to generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice.

STATEMENT OF COMPETENCY: The appraisers have a total of over 59 years experience in the real estate appraisal business, which includes the appraisal of similar projects; therefore, have attained the necessary knowledge and experience to competently complete this assignment (See Qualifications).

DATA SOURCES: Sources used in investigating comparables sales include local multiple listing services, national commercial property listing services, lenders, realtors, deed records, builders, developers, title companies, individuals and other appraisers.

INCOME PROPERTY PROVISION: Not applicable.

CONTINGENCY PROVISION: The appraisers certify that their compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event. Furthermore, this appraisal assignment is not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

SUMMARY OF IMPORTANT DATA (continued)

DISCOUNTING PROCESS: The discounting process is only considered applicable when: 1) the subject is proposed construction and it is estimated that the construction will take over six months to complete; 2) the subject is partially leased and the absorption period is estimated to be more than six months; 3) the subject is being leased at other than market rent; or 4) the subject is a large project with several unsold units. The discounting process not deemed necessary in the valuation of the subject property.

STATEMENT CONCERNING DISABILITIES ACT: The Americans with Disabilities Act ("ADA") became effective January 26, 1992. The appraisers have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since the appraisers have no direct evidence relating to this issue, possible noncompliance with the requirements of ADA in estimating the value of the property has not been considered.

CENSUS TRACT: According to the U.S. Geological Survey Department, the subject is located in Census Tract 214.01, Hidalgo County, Texas.

FLOOD DESIGNATION: The appraisers are not experts in determining the flood zone designation for the subject. No responsibility is assumed on our part for accurately determining the subject's flood zone. If an official survey or flood designation certificate is not provided, the appraisers estimate flood designation based on available FEMA flood maps and/or recorded subdivision maps. Because some of the information may be inconclusive, the appraisers' opinion of value is predicated on the assumption that the flood zone indicated herein is correct. According to FIRM Panel No. 480347 0005 C, revised October 19, 1982, the subject is located within flood zone "B" (subject to survey), which is NOT a special flood hazard area.

PROPERTY INSPECTION DISCLAIMER: The appraisers are not licensed property inspectors. An inspection conducted by an appraiser is not the equivalent of an inspection by an inspection professional such as a structural engineer or a licensed property inspector. The extent of the appraiser's inspection process is an aspect of the scope of work, and may vary based on assignment conditions and the intended use of the assignment results. The appraiser's inspection is limited to those things readily observable without the use of special testing or equipment. The Appraiser has inspected as far as possible, by observation, the improvements and land; however, it was not possible to personally observe conditions beneath the soil or other hidden components. No representations are made herein as to these matters unless specifically stated and considered in the report.

DATE OF THE REPORT: The assemblage of the descriptions, analysis, and conclusions occurred on or about October 13, 2014, and is considered the date of the report.

PREFACE

An appraisal is a type of research into the laws of probabilities with respect to real estate transactions. The Insurance Industry can reliably predict that out of so many exposures a certain number of losses will occur. They, of course, cannot predict the exact insured on whom this loss will fall. The appraiser can predict the general real estate market with much greater certainty than he can the value of a specific piece of property.

The appraiser who estimates market value of a particular property is merely stating his opinion of what such property most likely will bring in dollars if it is exposed for sale on the open market allowing a reasonable time for buyers to inspect and investigate before making their offers.

Through the appraiser's education, training, experience, and integrity he is able to relate how sellers and buyers have acted in the past into a forecast of how they most likely will act to the particular property in question. Because each particular property is different and unique, he must by necessity make adjustments in making comparisons to arrive at his final conclusions.

An appraisal does not necessarily set the price to be paid. It should be used to form a basis of negotiation between owner and prospective purchaser or between lender and borrower or between condemnor and condemnee.

This appraisal is not guaranteed. It cannot be proven. If the property brings the estimated value herein, or if a mortgage is predicated thereon, or if a settlement is made as a result of such estimated value, it merely means the parties concerned agreed with the appraiser. The parties may disagree and this does not disprove the estimated value. It merely means a difference of opinion.

Prices paid and awards made often reflect sentiment, compassion, sympathy, bias, politics, personal interest, specific needs, lack of understanding and other factors not considered by the impartial appraiser. The final opinion of value is the result of a professional opinion and analysis of a considerable quantity of physical and economic facts. The methods used in the analysis are explained in the appraisal report. The reader is invited to draw his own conclusions in the event of a difference of interpretation of the facts within the report.

This appraisal is made subject to certain basic assumptions, definitions and limiting conditions. These should be read by the reviewer.

PREMISES OF THE APPRAISAL

Identification of the Property

The subject property consists of the building commonly known as the Textbook Building which is located at 714 E. US Business Highway 83. *The land is not included in the Retrospective Value Opinion; therefore there is no specific legal description.*

Property Rights Appraised

This appraisal requires that the ownership of the subject property include all rights to title that may be legally owned. Such ownership is termed "fee simple" and said ownership is the property rights appraised in this report, excluding oil, gas and other mineral rights and subject to easements of record.

Intended Use of the Appraisal

The intended use of this appraisal is for client use in resolving a legal matter pertaining to the subject building improvements.

Intended User of the Appraisal

The intended user of the appraisal is the PSJA Independent School District.

Scope of the Appraisal

At the client's request, an appraisal report of the subject property is prepared which conforms to generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice promulgated by the Appraisal Standards Board of the Appraisal Foundation and the Guide Notes to the Standards of Professional Appraisal Practice adopted by the Appraisal Institute. Per agreement with the client, the appraisers' engagement includes the following: perform a physical inspection of the subject property as of the current date; examine photographs and demolition plans depicting the subject as of February 1, 2012; analyze data such as demographics, supply and demand, property size, location and zoning; perform a highest and best use analysis of the subject property; consider all approaches to value and complete the applicable approaches to value, of which the Income Capitalization Approach and the Sales Comparison Approach to value are considered applicable and include research and analysis of comparable improved sales and rental data, vacancy and occupancy rates, operating expenses,

PREMISES OF THE APPRAISAL (continued)

and discount rates; and, analyze and correlate the data and present the conclusion and opinion of retrospective market value in a narrative appraisal report format.

Market Value Defined

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated.
2. Both parties are well informed or well advised, and acting in what they consider their best interests.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto.
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Sources: The Office of the Comptroller of Currency 12 C.F.R., Part 34, Subpart C-1 Appraisals 34-42 Definition (g); and, The Code of Federal Regulations, Title 12, Chapter III, Subchapter B, Sect. 323.2(g)

LIMITING CONDITIONS AND ASSUMPTIONS

By this notice, all persons and firms reviewing, utilizing or relying on this report in any manner bind themselves to accept these assumptions and limiting conditions. Do not use this report if you do not so accept. These conditions are a part of the appraisal report, they are a preface to any certification, definition, fact or analysis, and are intended to establish as a matter of record that the appraiser's function is to provide a present market value indication for the subject property based upon the appraiser's observations as to the subject property and real estate market. This appraisal report is an economic study to estimate value as defined in it. It is not an engineering, construction, legal or architectural study nor survey and expertise in these areas, among others, is not implied.

1. LIMIT OF LIABILITY:

The liability of the Patterson firm and employees and affiliated independent contractors is limited to the client only and to the fee actually received by appraiser (total per appraisal). Further, there is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The Appraiser is in no way to be responsible for any costs incurred to discover or correct any deficiencies of any type present in the property; physically, financially, and/or legally. In the case of limited partnerships or syndication offerings or stock offerings in real estate, client agrees that in case of lawsuit (brought by lender, partner or part owner in any form of ownership, tenant, or any other party), any and all awards, settlements of any type in such suit, regardless of outcome, client will hold Appraiser completely harmless in any such action.

2. COPIES, PUBLICATION, DISTRIBUTION, USE OF REPORT:

Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use; the physical report(s) remain the property of the Appraiser for the use of the client, the fee being for the analytical services only.

The Bylaws and Regulations of the American Institute of Real Estate Appraisers of the National Association of Realtors require each Member and Candidate to control the use and distribution of each appraisal report signed by such Member or Candidate; except as hereinafter provided; the client may distribute copies of this appraisal report in its entirety to such third parties as he may select; however, selected portions of this appraisal report shall not be given to third parties without the prior written consent of the signatories of this appraisal report. Neither all nor any part of this appraisal report shall be disseminated to the general public by the use of advertising media, public relations, news, sales or other media for public communication without the prior written consent of appraiser. (See last item following this list for client agreement-consent).

3. CONFIDENTIALITY:

This appraisal is to be used only in its entirety and no part is to be used without the whole report. All conclusions and opinions concerning the analysis as set forth in the report were prepared by the Appraiser(s) whose signature(s) appear on the appraisal report, unless indicated as "Review Appraiser". No change of any item in the report shall be made by anyone other than the Appraiser and/or officer of the firm. The appraiser and firm shall have no responsibility if any such unauthorized change is made.

LIMITING CONDITIONS AND ASSUMPTIONS (continued)

The Appraiser may not divulge the material (evaluation) contents of the report, analytical findings or conclusions, or give a copy of the report to anyone other than the client or his designee as specified in writing except as may be required by the American Institute of Real Estate Appraisers or the Society of Real Estate Appraisers as they may request in confidence for ethics enforcement, or by a court of law or body with the power of subpoena.

4. TRADE SECRETS:

This appraisal was obtained from Aguirre and Patterson, Inc. or related companies and/or its individuals or related independent contractors and consists of "trade secrets and commercial or financial information" which is privileged and confidential and exempted from disclosure under 5 U.S.C. 552 (b) (4). Notify the Appraiser(s) signing report or an officer of Aguirre and Patterson, Inc., of any request to reproduce this appraisal in whole or part.

5. INFORMATION USED:

No responsibility is assumed for accuracy of information furnished by work of or work by others, the client, his designee, or public records. We are not liable for such information as the work of possible subcontractors. Be advised that some of the people associated with Aguirre and Patterson, Inc. and possibly signing the report are independent contractors. The comparable data relied upon in this report has been confirmed with one or more parties familiar with the transaction or from affidavit or other source thought reasonable; all are considered appropriate for inclusion to the best of our factual judgment and knowledge. An impractical and uneconomic expenditure of time would be required in attempting to furnish unimpeachable verification in all instances, particularly as to engineering and market-related information. It is suggested that the client consider independent verification as a prerequisite to any transaction involving sale, lease, or other significant commitment of funds to the subject property.

6. TESTIMONY, CONSULTATION, COMPLETION OF CONTRACT FOR APPRAISAL SERVICE:

The contract for appraisal, consultation or analytical service is fulfilled, and the total fee is payable upon completion of the report. The Appraiser(s) or those assisting in preparation of the report will not be asked or required to give testimony in court or hearing because of having made the appraisal, in full or in part, nor engage in post appraisal consultation with client or third parties except under separate and special arrangement and at additional fee. If testimony or deposition is required because of any subpoena, the client shall be responsible for any additional time, fees, and charges regardless of issuing party.

7. EXHIBITS:

The sketches and maps in this report are included to assist the reader in visualizing the property and are not necessarily to scale. Various photos, if any, are included for the same purpose as of the date of the photos. Site plans are not surveys unless shown from separate surveyor.

8. LEGAL, ENGINEERING, FINANCIAL, STRUCTURAL, OR MECHANICAL NATURE HIDDEN COMPONENTS, SOIL:

The appraiser and/or firm have no responsibility for matters legal in character or nature, nor of any architectural, structural, mechanical, or engineering nature. No opinion is rendered as to the title, which is presumed to be good and merchantable. The property is appraised as if free and clear, unless otherwise stated in particular parts of the report. The legal description is assumed to

LIMITING CONDITIONS AND ASSUMPTIONS (continued)

be correct as used in this report as furnished by the client, his designee, or as derived by the Appraiser.

Please note that no advice is given regarding mechanical equipment or structural integrity or adequacy, nor soils and potential for settlement, drainage, and such (seek assistance from qualified architect and/or engineer) nor matters concerning liens, title status, and legal marketability (seek legal assistance), and such. The lender or owner may wish to require mechanical or structural inspections by qualified and licensed contractor, civil or structural engineer, architect, or other expert.

The Appraiser has inspected as far as possible, by observation, the land and the improvements; however, it was not possible to personally observe conditions beneath the soil or hidden structural, or other components. We have not critically inspected mechanical components within the improvements and no representations are made herein as to these matters unless specifically stated and considered in the report. The value estimate considers there being no such conditions that would cause a loss of value. The land or the soil of the area being appraised appears firm, however, subsidence in the area is unknown. The Appraiser(s) do not warrant against this condition or occurrence of problems arising from soil conditions.

The appraisal is based on there being no hidden, unapparent, or apparent conditions of the property site, subsoil, or structures or toxic materials, which would render it more or less valuable. The appraiser and firm have no responsibility for any such conditions or for any expertise of engineering to discover them. All mechanical components are assumed to be in operable condition and status standard for properties of the subject type. Conditions of heating, cooling, ventilating, electrical and plumbing equipment is considered to be commensurate with the conditions of the balance of the improvements unless otherwise stated. No judgment may be made by us as to adequacy of insulation, type of insulation, or energy efficiency of the improvements or equipment, which is assumed standard for subject age and type.

If the Appraiser has not been supplied with a termite inspection, survey or occupancy permit, no responsibility or representation is assumed or made for any costs associated with obtaining same or for any deficiencies discovered before or after they are obtained. No representation or warranties are made concerning obtaining the above mentioned items.

The Appraiser has no responsibility for any costs or consequences arising due to the need, or the lack of need for flood hazard insurance. An Agent for the Federal Flood Insurance Program should be contacted to determine the actual need for Flood Hazard Insurance.

9. LEGALITY OF USE:

The appraisal is based on the premise that, there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in the report; further, that all applicable zoning, building, use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits, or other legislative or administrative authority, local, state, federal and/or private entity or organization have been or can be obtained or renewed for any use considered in the value estimate.

LIMITING CONDITIONS AND ASSUMPTIONS (continued)

10. COMPONENT VALUES:

The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.

11. AUXILIARY AND RELATED STUDIES:

No environmental or impact studies, special market study or analysis, highest and best use analysis study or feasibility study has been requested or made unless otherwise specified in an agreement for services or in the report.

12. DOLLAR VALUES, PURCHASING POWER:

The market value estimated, and the costs used, are as of the date of the estimate of value. All dollar amounts are based on the purchasing power and price of the dollar as of the date of the value estimate.

13. INCLUSIONS:

Furnishings and equipment or personal property of business operations except as specifically indicated and typically considered as part of real estate, have been disregarded with only the real estate being considered in the value estimate unless otherwise stated. In some property types, business and real estate interests and values are combined.

14. PROPOSED IMPROVEMENTS, CONDITIONED VALUE:

Improvements proposed, if any, on or off-site, as well as any repairs required are considered, for purposes of this appraisal to be completed in good and workmanlike manner according to information submitted and/or considered by the appraisers. In cases of proposed construction, the appraisal is subject to change upon inspection of property after construction is completed. This estimate of market value is as of the date shown, as proposed, as if completed and operating at levels shown and projected.

15. VALUE CHANGE, DYNAMIC MARKET, INFLUENCES, ALTERATION OF ESTIMATE BY APPRAISER:

The estimated market value, which is defined in the report, is subject to change with market changes over time; value is highly related to exposure, time, promotional effort, terms, motivation, and conditions surrounding the offering. The value estimate considers the productivity and relative attractiveness of the property physically and economically in the marketplace.

In cases of appraisals involving the capitalization of income benefits the estimate of market value or investment value or value in use is a reflection of such benefits and Appraiser's interpretation of income and yields and other factors derived from general and specific client and market information. Such estimates are as of the date of the estimate of value; they are thus subject to change as the market and value is naturally dynamic.

The "Estimate of Market Value" in the appraisal report is not based on whole or in part upon the race, color or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.

LIMITING CONDITIONS AND ASSUMPTIONS (continued)

The appraisal report and value estimate is subject to change if physical or legal entity or financing is different than that envisioned in this report.

16. MANAGEMENT OF THE PROPERTY:

It is assumed that the property which is the subject of this report will be under prudent and competent ownership and management; neither inefficient nor super-efficient.

17. CONTINUING EDUCATION CURRENT:

The Appraisal Institute conducts a voluntary program of continuing education for its designated members; MAI and SRA Designates who meet the minimum standards of this program are awarded periodic educational certification and; MAI(s) signing the report is/are currently under this program.

18. FEE:

The fee for this appraisal or study is for the service rendered and not for the time spent on the physical report or the physical report itself. Amount or payment of fee for services is not contingent on any result, approval amount or other estimates or statements.

19. INSULATION AND TOXIC MATERIALS:

In this appraisal assignment, the existence of potentially hazardous material used in the construction or maintenance of the building, such as the presence of urea-formaldehyde foam insulation, and/or the existence of toxic material or waste, or other environmental hazards, which may or may not be present on the property, has not been considered. The appraiser is not qualified to detect such substances. We urge the user of this report to retain an expert in this field if desired. If such is present, the value of the property may be adversely affected and, therefore, must be reappraised at additional cost.

20. REVIEW:

Unless otherwise noted herein, named review Appraiser of/from Aguirre and Patterson, Inc. has reviewed the report only as to general appropriateness of technique and format, and has not necessarily inspected the subject or market comparable properties.

21. CHANGES, MODIFICATIONS:

The Appraisers and/or officers of Aguirre and Patterson, Inc., reserve the right to alter statements, analysis, conclusions or any value estimate in the appraisal if there becomes known to us facts pertinent to the appraisal process, which were unknown to us, when the report was finished.

22. FHLBB REGULATIONS:

Federal Home Loan Bank Board has special requirement for appraisals to be used by Savings and Loan Associations for some types of loans; this appraisal is not intended to be used for such unless specifically stated otherwise in the report. Any additional research, analysis, and report writing may be undertaken at a later date upon client request at additional fee for time and costs.

23. AFTER TAX ANALYSIS AND/OR VALUATION:

Any "after" tax income or investment analysis and resultant measures of return on investment are intended to reflect only possible and general market considerations, whether as part of estimating value or estimating possible returns on investment at an assumed value or price paid; note that the

LIMITING CONDITIONS AND ASSUMPTIONS (continued)

Appraiser(s) does not claim expertise in tax matters and advises client and any other using the appraisal to seek competent tax advice as the Appraiser is in no way to be considered a tax advisor or investment advisor.

24. ACCEPTANCE OF, AND/OR USE OF, THIS APPRAISAL REPORT BY CLIENT OR ANY THIRD PARTY CONSTITUTES ACCEPTANCE OF THE ABOVE CONDITIONS. APPRAISER LIABILITY EXTENDS ONLY TO STATED CLIENT, NOT SUBSEQUENT PARTIES OR USERS OF ANY TYPE, and the total liability of appraiser and firm is limited to the amount of fee received by Appraiser.

PHARR CITY ANALYSIS

General

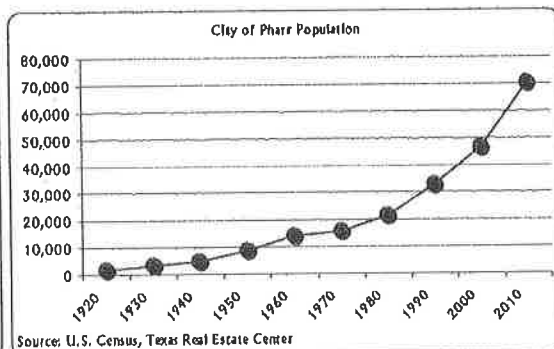
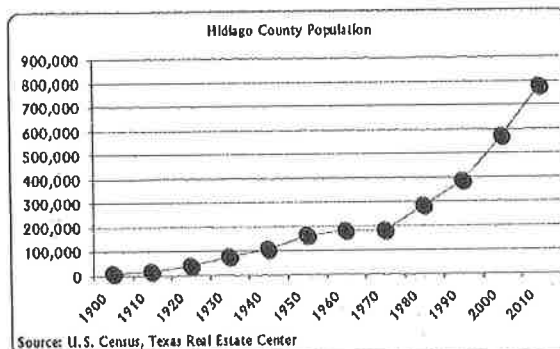
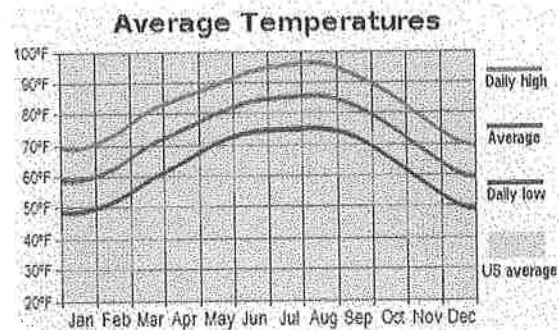
The City of Pharr, established in 1909, is located in the lower Rio Grande Valley in Hidalgo County, Texas, approximately 150 miles south of Corpus Christi and 140 miles southeast of Laredo. Pharr enjoys all the same natural resources, physical attributes, agricultural, and commercial trends that the rest of the Lower Rio Grande Valley experiences.

Encompassing an area of approximately 20 square miles, the topography of the City and surrounding area is fairly level with an average elevation of 108 feet above sea level. The average annual temperature is 73 degrees Fahrenheit.

Population Data & Growth Statistics

According to the U.S. Census Bureau, the population of Pharr in 2010 was 70,400, a 50.9% increase from 2000 figures which indicated 46,660 persons. All indicators are for the population for Pharr to continue to increase.

The City of Pharr is located within the McAllen-Mission-Edinburg Metropolitan Statistical Area which is defined by the US Census Bureau as consisting of the County of Hidalgo. From 1990 to 2000, Hidalgo County indicated a 48.5% growth rate, which was the 7th fastest growing county in the state of Texas. The 2010 census figures are reporting 774,769 persons, which is a 36.1% increase from 2000 figures.



PHARR CITY ANALYSIS (continued)

Employment Activity & Sources

The major employers of the city are government, including the local school system, followed by retail trade, followed by the health care field. Other employers include produce and citrus shippers and accommodation and food services.

Transportation

Pharr is located at the intersection of the two main highways into and through the Valley, U.S. Highway 281 which runs north/south and leads directly into Mexico to the south, and San Antonio to the north, and U.S. Expressway 83 which runs east/west and leads directly toward Laredo to the west and Brownsville to the east. A Valley bus line provides ample public transportation locally. The area is served by the Missouri Pacific and Southern Pacific Railroads, which connect Corpus Christi and San Antonio with the Mexican rail system through Matamoros, Mexico. Pharr is only five minutes from Miller International Airport in McAllen, (adjacent to Pharr), which handles air travel to Corpus Christi, Houston and San Antonio as well as international flights to the interior of Mexico.

The only port of entry into Mexico within the Pharr city limits is the Pharr-Reynosa International Bridge, connecting U.S. Highway 281 to the City of Reynosa. Constructed in 1994, the Pharr International Bridge is one of the most technologically advanced border crossings in the United States. GAMA Rays and Fast & Secure Trade program, known as FAST are implemented by both the U.S. and Mexican Customs, which allows an expedited inspection of documents and cargo, and limits crossing time on the U.S.-Mexican border. As a result, the Pharr Bridge is quickly becoming a primary industrial port. As the bridge continues to draw more and more attention, development of industrial parks located in the southern sector of Pharr, and the surrounding areas is expected to continue to increase.

Recreation and Churches

The semi-tropical climate and ample rainfall combine to make Pharr very attractive to winter tourists and retirees, an industry that is growing at a steady rate. Recreational facilities for the area include fishing, boating and swimming in the Gulf of Mexico (Padre Island) and Falcon Lake, both some 65 miles from Pharr in opposite directions. There are many bird sanctuaries in the Valley along with a fine zoo, botanical gardens and parks. Golf is a sport enjoyed here at Pharr's

PHARR CITY ANALYSIS (continued)

Plantation South Golf Course. The City of Pharr has fine parks, an Olympic-sized swimming pool, stadium and gymnasium. The Pharr Recreation Department offers a variety of programs for the city's youth, including soccer, baseball, basketball, track and field, golf, tennis, ballet, guitar, karate, etc. There are at least nine churches within the City of Pharr, many of which organize additional community events and outreach programs.

Industrial Development

The City of Pharr is encouraging industrialization with the establishment of the several industrial parks located on South U.S. Highway 281 near the site of the Pharr International Bridge. The Pharr Economic Development Corporation, a non-profit organization, has had a positive impact on drawing in business and industry development into the Pharr-Reynosa area and was responsible for developing three industrial parks, the Pharr Industrial Park, the Capote Industrial Park, and Keystone Industrial Park, and has recently begun construction on a fourth industrial development, the Pharr Produce District which is expected to be completed in 2014. The southern area of Pharr has witness significant industrial growth in the past five years as a result.

Schools

Pharr is within the Pharr, San Juan and Alamo Independent School District which has 26 elementary schools, 8 middle schools, 4 high schools, and 5 alternative schools. Total enrollment is over 31,000 students. Of these schools, 14 elementary, 4 middle schools, and 2 high schools are situated within the City of Pharr. The University of Texas Pan American is located in the nearby City of Edinburg, approximately 7 miles from Pharr; and, South Texas College is located within the City of McAllen, approximately 11 miles away.

Government

Pharr operates under a city manager, mayor and city council form of government. It has a police force, a paid and volunteer fire department, and in addition, supplies the usual city services of water, sewer, garbage, and trash pickup. The zoning ordinance that has been adopted is the Southern Standard Building Code. No rent controls are in effect. The city has public housing projects, which are well managed. The city receives two percent sales tax revenue. This is bringing an increasing amount every year and this revenue has been one reason property taxes have

PHARR CITY ANALYSIS (continued)

remained stable in spite of higher city costs. The City has been politically stable over the past years and has responded well to the demand for municipal services.

Housing Development

Tourists and retirees are rapidly adding to the local people's demands for housing and all supporting facilities. In the City of Pharr, within the past few years, we have seen the development of mobile home parks, apartment houses, new condominium projects and numerous single-family subdivisions. Demand is thus evidenced for various types of real estate.

Economic Indicators

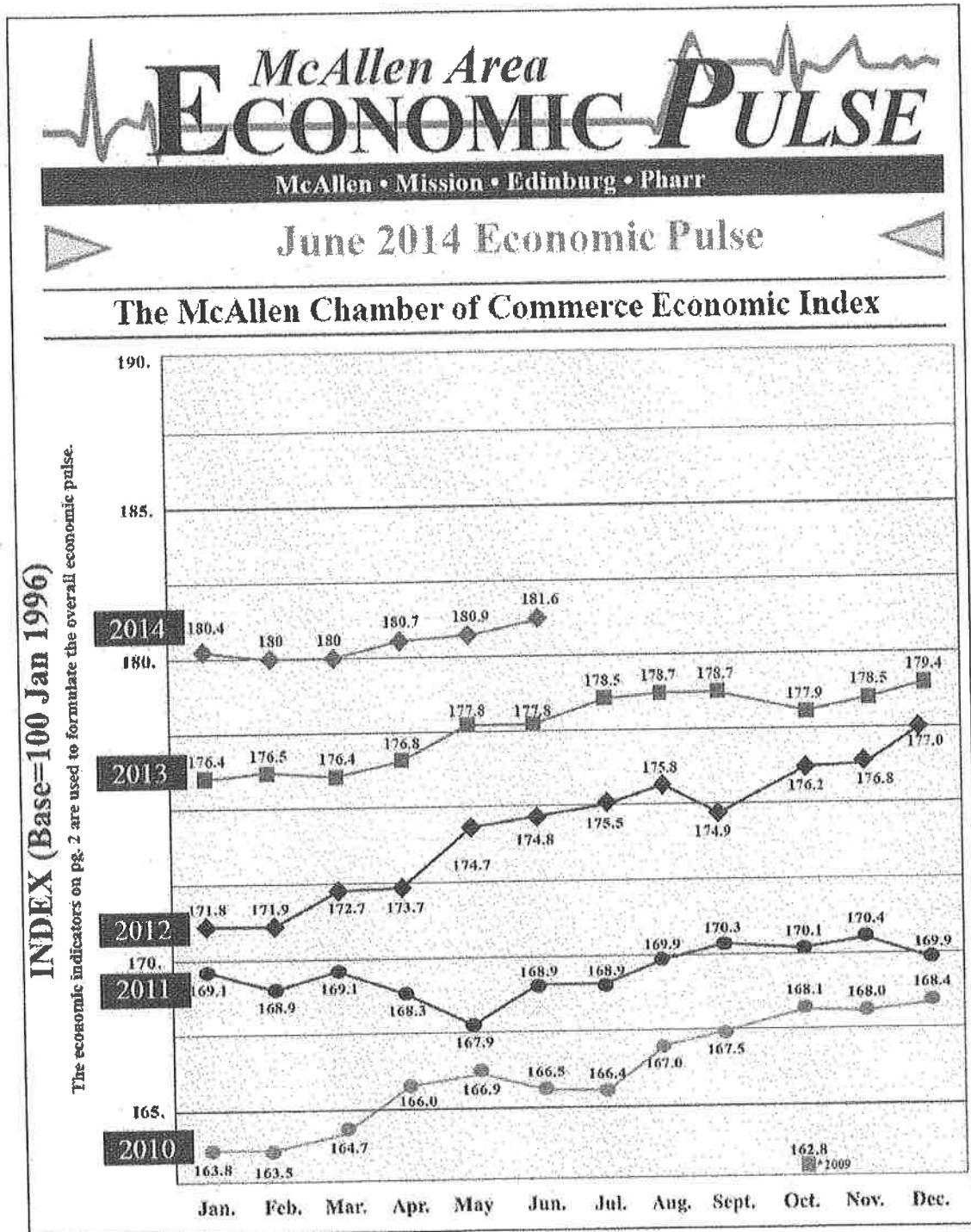
The MetroMonitor, has been tracking the economic recession and recovery in America's 100 largest metropolitan areas. According to recent reports, "by the fourth quarter of 2012 only 14 metro areas—six of which are in Texas—had fully recovered their pre-recession employment levels. They were: Austin, Charleston, Dallas, El Paso, Houston, Knoxville, McAllen, Oklahoma City, Omaha, Pittsburgh, San Antonio, San Jose, and Washington."²

CNN Money, among others have identified the McAllen MSA as one of "America's Most Recession-Proof Cities" and according to the Council for Community and Economic Research in January 2012, the McAllen MSA was identified as the 4th least expensive city in the United States to live in, with a cost of living index of 15.5% below the national average.

The McAllen Chamber of Commerce publishes the McAllen Area Economic Pulse which measures the economic activity for McAllen, Mission, Pharr, and Edinburg in the following areas: retail sales, motor vehicle sales, lodging tax receipts, airline boarding, construction permits, new home permits, home sales, average home sale price, Hidalgo bridge crossings, peso exchange rate, wage and salary employment, and unemployment. The data from the Chamber further supports the trends witnessed in sales tax and building permits, that being a trend for a tempered recovery. The Chamber's report is provided on the following pages.

² <http://www.brookings.edu/research/interactives/metromonitor/#M32580-this-qtr-employment-nv>

PHARR CITY ANALYSIS (continued)



PHARR CITY ANALYSIS (continued)

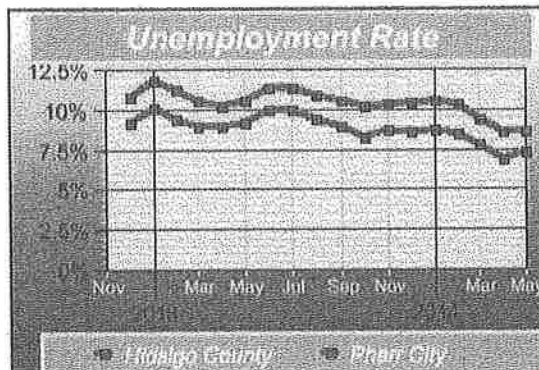
The McAllen Area Economy	ECONOMIC INDICATORS	THIS YEAR	LAST YEAR	% CHANGE 2013 - 2014
		June 2014	June 2013	
	Retail Sales (\$000's - June in 1995\$)	\$312,517	\$280,726	11.3%
	Retail Sales (\$000's - 2nd Quarter)	\$957,512	\$912,727	4.9%
	Retail Sales (\$000's - Year-to-Date)	\$1,976,722	\$1,909,019	3.5%
	Dollars Spent on Auto Purchases (\$000's - June in 1995\$)	\$126,739	\$120,573	5.1%
	Dollars Spent on Auto Purchases (\$000's - 2nd Quarter)	\$368,681	\$338,932	8.8%
	Dollars Spent on Auto Purchases (\$000's - YTD)	\$742,453	\$690,913	7.5%
	Lodging Tax Receipts (June)	\$309,619	\$285,146	8.6%
	Lodging Tax Receipts (2nd Quarter)	\$990,276	\$869,314	13.9%
	Lodging Tax Receipts (YTD)	\$2,048,024	\$1,869,238	9.6%
	Airline Boardings (June)	39,391	34,778	13.3%
	Airline Boardings (2nd Quarter)	106,757	94,411	13.1%
	Airline Boardings (YTD)	191,888	174,684	9.8%
	Value All Construction Permits (June)	38,632,189	53,060,512	-27.2%
	Value All Construction Permits (2nd Quarter)	\$114,435,769	\$176,820,748	-35.3%
	Value All Construction Permits (YTD)	\$220,625,706	\$281,800,907	-21.7%
	New Home Permits (June)	114	96	18.8%
	New Home Permits (2nd Quarter)	354	308	14.9%
	New Home Permits (YTD)	655	551	18.9%
	Home Sales (June)	221	195	13.3%
	Home Sales (2nd Quarter)	647	622	4.0%
	Home Sales (YTD)	1,172	1,147	2.2%
	Average Home Sale Price (June)	141,026	142,175	-0.8%
	Average Home Sale Price (2nd Quarter)	\$136,216	\$135,213	0.7%
	Average Home Sale Price (YTD)	\$137,105	\$128,203	3.0%
	Hidalgo/Anzalduas Bridge Crossings (June)	429,205	442,465	-3.0%
	Hidalgo/Anzalduas Bridge Crossings (2nd Quarter)	1,311,806	1,338,627	-2.0%
	Hidalgo/Anzalduas Bridge Crossings (YTD)	2,602,297	2,628,377	-1.0%
	Peso/Dollar Exchange Rate (June)	\$12.60	\$12.75	-1.19%
	Employment	237,600	234,600	1.3%
	Wage & Salary Employment (June)	237,765	233,785	1.7%
	Wage & Salary Employment (YTD Avg)	9.6	11.4	-15.8%
	Unemployment Rate (June)	9.5	11.0	-13.2%
	Unemployment Rate (YTD Average)			
	INDEX - May (Base=100 Jan 1996)	181.6	178.5	1.7%

Key Points

- The McAllen economy continued to improve through mid-year 2014 with the McAllen Economic Index rising to 181.6 in June up from 180.9 in May, and up 1.7% from the June 2013 MEI of 178.5. The June 2014 index value is the highest since November 2008, and is now down by less than 5% compared to the all-time McAllen Economic Index peak of 190.6 achieved in January 2008.
- The economy improved at a faster rate in the first half of the year and in the second quarter, with the McAllen Economic Index from January-June increasing at an annualized rate of 2.5%, and growing at a 3.5% annualized pace in the second quarter. Most sectors of the McAllen metro area economy which serve as components of the McAllen Economic Index are improved at the mid-point 2014, with only total construction (building permits issued) and border crossings down through June compared to year-ago levels.
- General real (inflation-adjusted) spending per monthly sales tax receipts was up by nearly 5% in the second quarter compared to the second quarter of a year ago, and the June monthly total was up a sharp 11.3% compared to the June 2014 total. Midway through the year, taxable spending is up by a solid 3.5% compared to the first six months of last year.
- Employment remains at a record level in the McAllen metro area but the pace of growth has slowed through mid-year with the number of jobs in June increasing by only about 1.3% compared to June of a year ago reflecting the addition of about 3,000 jobs over the last 12 months. The unemployment rate indicates a normal seasonal uptick from May to June, but the correct measure is June of this year compared to June of last (or any prior June), and the unemployment rate of 9.6% in June 2014 compares favorably with the 11.4% rate of unemployment in June of a year ago.
- Auto sales remain strong in McAllen, pushing ever deeper into record territory. Inflation-adjusted spending on new and used automobiles was up by nearly 9% in the second quarter (year-over-year), and by about 5% in June. Thus far in 2014, real auto spending is up by some 7.5% compared to the first six months of a year ago.
- The travel and tourism indicators suggest stout gains compared to year-ago levels, with hotel/motel tax receipts and airport passenger enplanements both up by nearly 10% compared to year-ago levels.
- Construction activity is down in 2014 posting year-over-year declines for the month, quarter, and year-to-date. The \$220.6 million in building permits issued thus far in 2014 is off by nearly 22% compared to the January-June total in 2013, and in fact is the lowest total for the first six months of the year since 2010. Home building is on the rise, however, with the number of new single-family residence construction permits up by 15% for the quarter and about 19% for the year-to-date. And in fact the 865 permits issued in McAllen, Edinburg, Mission, and Pharr is the highest January-June total since 2010.
- The McAllen metro area residential real estate market remains in healthy condition with modest increases in the number of homes sold at rising prices. The number of closed sales is up by only about 2% year-over-year, but that comes on top of a 6% gain through June of last year, and a 17% gain through June of the prior year. The second quarter average price was flat compared to year-ago levels; however, the second quarter 2013 average home sale price was up by over 10% compared to the prior year. The real dollar volume of residential real estate sales activity is slowly but very steadily on the rise, and is up by a respectable 3% compared to the first six months of 2013.

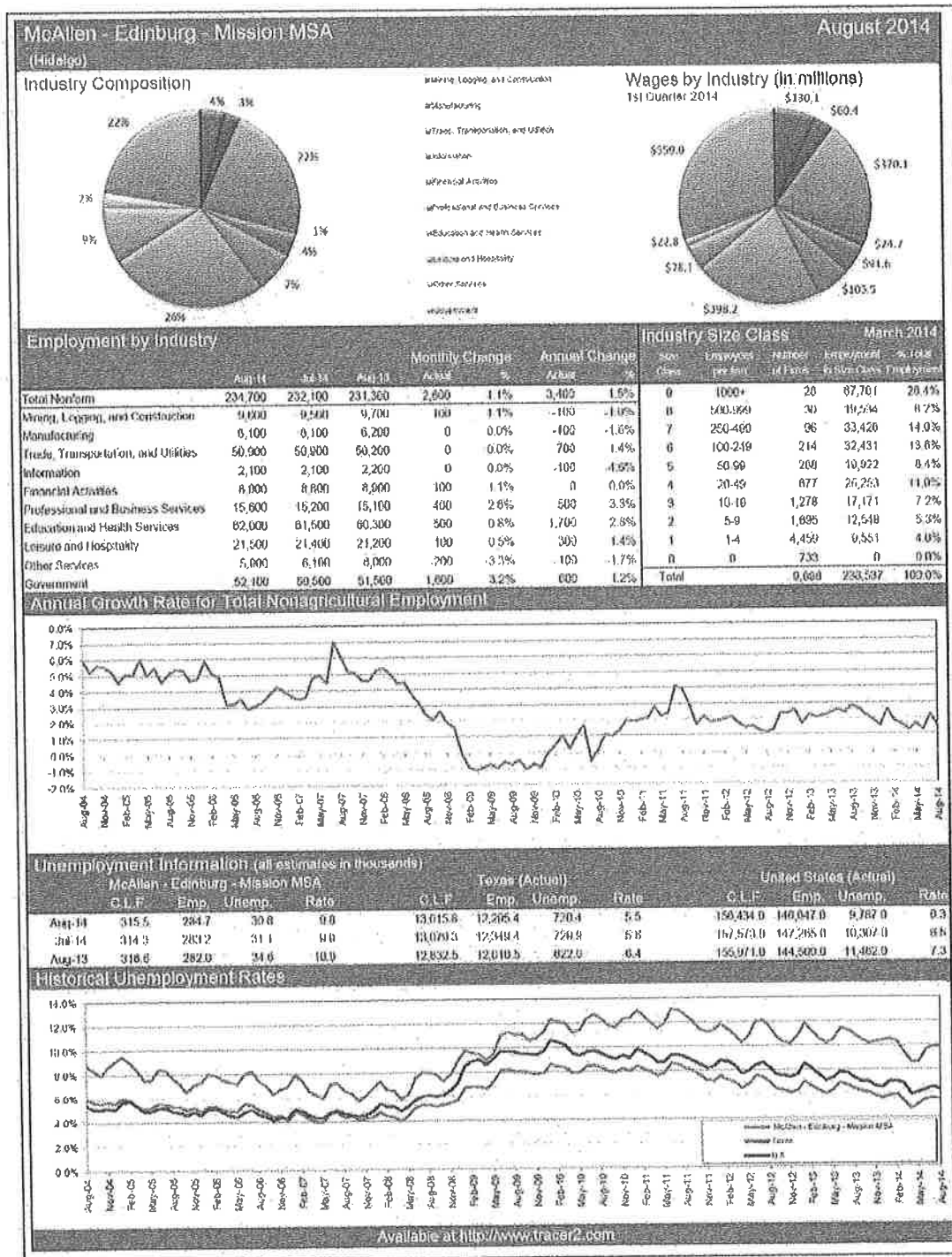
PHARR CITY ANALYSIS (continued)

According to the Texas Employment Commission the unemployment rate for Pharr as of May 2014 was 7.3%. The rate for Hidalgo County for the same period was 8.6%. While the county's average annual jobless rate is higher than the state average, this is typical of the locale. Historically, unemployment rates increase in the winter and summer months with a decrease in unemployment typically seen in the fall and spring. This is attributed to seasonal decreases within the educational institutions related to the summer break and/or agricultural harvest periods; however, the national economic condition has in general resulted in higher rates than what was observed in 2008.



The Labor Market and Career Information Department of the Texas Workforce Commission examines and provides statistics for various metropolitan statistical areas. The LMCI's snapshot for the McAllen-Edinburg-Mission MSA is presented on the following page.

PHARR CITY ANALYSIS (continued)



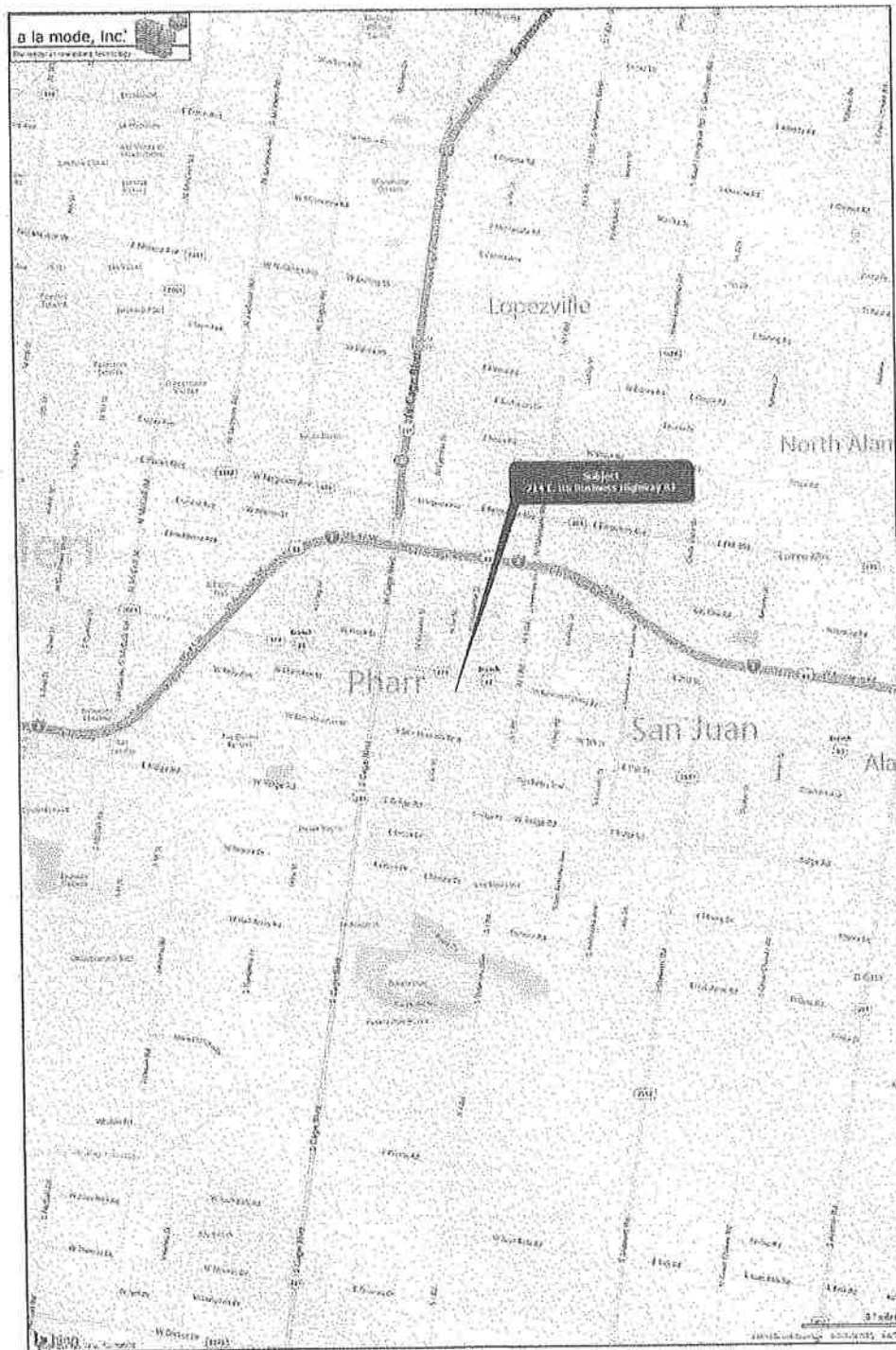
PHARR CITY ANALYSIS (continued)

Summary

In review we conclude the following:

1. Pharr enjoys the benefits of a very productive agricultural region.
2. The mild climate and plentiful recreational facilities are encouraging a rapidly increasing tourist trade.
3. A plentiful work force and aggressive industrial recruiting are encouraging industrialization.
4. The city is stable politically and ample educational opportunities are available.
5. The City of Pharr is growing in population, in retail sales and in size and can be expected to widen its economic base, continue to grow at an increasing rate, and property values to increase in tune with the city growth.
6. Pharr's International Bridge along with implementation of NAFTA should enhance growth in virtually all aspects of its economy.

CITY OF PHARR MAP



SUBMARKET ANALYSIS

According to the Appraisal Institute, *The Dictionary of Real Estate Appraisal*, Fifth Edition, a submarket is a division of a total market that reflects the preferences of a particular set of buyers and sellers. According to definition, the submarket is considered to be the land along both sides of US Business Highway 83, bound by Cage Boulevard on the west and Veteran's Boulevard ("I" Road) on the east.

US Business Highway 83 is a secondary highway running through the business districts of many of the main cities in Hidalgo County. Cage Boulevard (US Highway 281) is the main north/south commercial traffic artery running through the center of the City of Pharr. Veterans Boulevard (I Road) is a north/south traffic artery. Access to and through the submarket is good due to a network of paved feeder streets.

The submarket is located in the eastern sector of the City of Pharr and is characterized as mixed commercial and industrial development, backed by established residential development in the western sector.

Commercial facilities are typically owner occupied. Vacancies appear low, even during the economic downturn in 2009, demonstrating excellent population support for commercial interests in the area.

Property values have remained stable throughout the past few years and supply/demand appears to be in balance with a marketing time of approximately 12-24 months depending on type of property and size. Current market indicators are for steady improved activity for the remainder of 2014. Public transportation is limited. Employment opportunities, schools, and recreational facilities are readily available throughout the submarket. There are no apparent adverse factors affecting marketability.

Indicators are for continued improved activity through 2014 and with continued population growth, development in the area should be steady in the years to come. The submarket appears economically stable at present.

SUBMARKET MAP



NOTE: Dated image. Not taken at time of inspection.

SITE ANALYSIS

Not Applicable. At the client's request, the land component has not been included in the appraisers' retrospective value opinion.

DESCRIPTION OF IMPROVEMENTS

General Description

The subject property consists of a detached building only. At the request of the client, the land component is not included in the retrospective value opinion.

The subject building is commonly referred to as the Textbook Building. This building contains a total gross building area of approximately 13,770 square feet. According to the information available, the building was constructed in the 1960's or 1970's. Construction is of concrete block perimeter walls with brick veneer on a grade-level concrete slab foundation with built-up roof cover over metal panels over steel frame. The interior of the building as of the effective date was partitioned into approximately 9,212 square feet of air-conditioned classroom and restroom area; and 4,557 square feet of automotive/maintenance shop area which was not air-conditioned.

The appraisers estimate the subject's effective age to be 30 years with a total economic life of approximately 40 years.

Specific Construction Description:

Foundation: Reinforced, grade-level concrete slab and beam system

Exterior Walls: CMU perimeter walls faced with brick veneer, minimal commercial grade windows, commercial grade doors, gutters and downspouts.

Roof Structure: Built-up roof cover over pre-engineered metal panels over steel frame

Flooring: VCT flooring for classroom/restroom areas; concrete subfloor for shop area

Interior Walls: Painted/textured drywall, wood doors, metal door jambs, vinyl base board trim for finished areas; exposed CMU for shop area

Ceiling: Suspended tile with florescent lighting for finished areas; exposed frame for shop area

HVAC: Electric HVAC for classroom/restroom areas; no heating/cooling for shop area

Electrical: Adequate service, wiring, outlets, and fixtures

Plumbing: Adequate service, supply, and average quality fixtures

Property Inspection Disclaimer: The appraiser is not a licensed property inspector. The Appraiser has inspected as far as possible, by observation, the land and the improvements; however, it was not possible to personally observe conditions beneath the soil or hidden structural, or other components. We have not critically inspected mechanical components within the improvements and no representations are made herein as to these matters unless specifically stated and considered in the report.

DESCRIPTION OF IMPROVEMENTS (continued)

Comments Regarding Condition of Improvements and Environmental Concerns

The appraisers have been informed that as of the effective date of the retrospective value opinion the subject building had known asbestos containing materials (ACM) in the HVAC Insulation mastic, the floor tile and mastic, the exterior vapor barrier, and the exterior transite panels, as well as certain hidden physical deficiencies that were not known as of the effective date of the retrospective value opinion, but were discovered shortly thereafter.

With respect to the asbestos containing materials, It is understood by the appraisers that the asbestos containing material was in good condition and not considered friable. However, removal of or altering the ACM would have required abatement and remediation by qualified professionals. The appraisers have been provided an estimated cost for abatement of approximately \$59,000.00

With respect to the hidden physical deficiencies, conditions known after the effective date are considered relevant to the appraisal assignment. Data known subsequent to the effective date may be considered in developing a retrospective value in such instances where it is reasonable that the data would be reasonably considered by a buyer or seller as of that date.³

To this end, It is considered reasonable that a typical buyer would have conducted due diligence in the evaluation of the subject improvements to determine any physical deficiencies. This due diligence would likely have included exploration into the structural components of the subject buildings and a adequately conducted investigation would have revealed the physical deficiencies that existed at the time. These physical deficiencies include the following: no brick ties between the brick veneer and the CMU perimeter walls, no water proofing on perimeter walls, and no insulation on perimeter walls.

An estimated cost to demolish and make necessary repairs was provided to the appraisers and is included herein on the pages that follow. The costs are for two adjacent buildings (the subject Textbook Building and the Textbook Building). Separating costs for the subject building only indicates a cost of \$332,510.00.

³ The Uniform Standards of Professional Appraisal Practice, The Appraisal Standards Board of The Appraisal Foundation, Effective January 1, 2014 through December 31, 2015, Statement 3: Retrospective Value Opinions.

Aguirre & Patterson, Inc.

Appraisal Report of the Textbook Building

DESCRIPTION OF IMPROVEMENTS (continued)

Building Breakdown of Cost to Repair Physical Deficiencies:

Work Segment	Stambaugh	Textbook
saw cut	\$10,140	\$12,480
demolition	\$28,000	\$16,800
demo pick up	\$28,000	\$16,800
rental	\$4,554	\$5,566
debris loads	\$16,819	\$20,556
asphalt repair	\$1,125	\$1,375
wood blocking	\$3,025	\$9,318
wood blocking	\$757	\$1,829
roof fix	\$3,200	\$4,560
metal studs	\$8,874	\$17,980
	\$1,333	\$2,667
	\$4,553	\$9,107
	\$3,036	\$6,071
	\$2,881	\$6,130
	\$558	\$1,117
	\$3,914	\$8,009
	\$2,476	\$5,340
tape,float,texture,paint	\$2,800	\$3,990
electrical	\$4,950	\$4,950
brick	\$10,770	\$12,797
	\$14,144	\$16,806
	\$2,461	\$2,925
	\$1,624	\$1,929
	\$320	\$380
	\$3,396	\$4,034
	\$1,325	\$1,575
	\$971	\$1,154
	\$5,399	\$6,414
damproofing	\$16,800	\$22,980
	\$22,400	\$30,640
flashing	\$2,400	\$3,420
	\$1,600	\$2,280
	\$2,400	\$3,420
	\$1,600	\$2,280
	\$1,200	\$1,140
	\$800	\$760
Plaster	\$28,000	\$38,300
COST	\$248,605	\$307,879
INSURANCE 1%	\$2,486	\$3,079
BOND 1%	\$2,486	\$3,079
OVERHEAD 1%	\$2,486	\$3,079
PROFIT 5%	\$12,430	\$15,394
TOTAL COST	\$268,493	\$332,510

DESCRIPTION OF IMPROVEMENTS (continued)

Builder's Cost Estimate:

TEXAS DESCON, L.P.		JOB NAME: THOMAS JEFFERSON EARLY COLLEGE H.S.	DATE: 7/20/
1 Demolition	\$	162,215	
2 Wood Blocking	\$	22,668	
3 Metal Studs, Gyp. Bd. & Dense Glass	\$	84,048	
4 Painting	\$	18,690	
5 Finish	\$	270,844	
6 Option for Metal Panels	\$	145,860.00	
	\$	558,484	
Insurance	1%	\$	5,585
Bond	1%	\$	5,585
Overhead	1%	\$	5,585
Profit	5%	\$	27,824
	\$	601,003	

DESCRIPTION OF IMPROVEMENTS (continued)

TEXAS DESCON L.P. McALLEN TEXAS		PROJECT:		THOMAS JEFFERSON EARLY COLLEGE				
DESCRIPTION	QUANTITY	UNIT	UNIT COST			LABOR	MATERIAL	SUB
			L	M	S			
DEMOLITION OF STAMBAUGH & TEXTBOOK BUILDINGS								
Stambaugh Bldg = 400 lf x 14' high = 5600 Wall sf Textbook Bldg = 670 lf x 13'-4" high = 7460 Wall sf								
Saw Cut existing Masonry Walls for Demolition								
13' High x 26 locations = 338 lf x 10" Deep	3380	LI			3			10,140
13' High x 32 locations = 416 lf x 10" Deep	4160	LI			3			12,480
Demolition								
Stambaugh Bldg								
14M x 10H x 10D = 1400 Hours	1400	Hr	20			28,000		
Textbook Bldg								
14M x 10H x 8D = 840 Hours	840	Hr	20			16,800		
Demolition Debris Pick up								
Stambaugh Bldg								
14M x 10H x 10D = 1400 Hours	1400	Hr	20			28,000		
Textbook Bldg								
14M x 10H x 8D = 840 Hours	840	Hr	20			16,800		
Equipment Rental								
Back Hoe w/ Hammer Attachment & Bucket	1	Mo			2200			2,200
Skid steer w/ Bucket	1	Mo			3020			3,020
Operator 2M x 10H x 10D = 200 Hours	200	Hr	20			4,000		
Trash Containers								
Debris Loads	65	LOS			575			37,375
Asphalt Repairs @ East side Drive								
Asphalt Repair Allowance	1	LS			2500			2,500
TOTAL						93,620		68,515
								162,135
Sheet No. 1			Item: DEMOLITION					

DESCRIPTION OF IMPROVEMENTS (continued)

TEXAS DESCON L.P.
McALLEN TEXAS

PROJECT:

THOMAS JEFFERSON EARLY COLLEGE

DESCRIPTION	QUANTITY	UNIT	UNIT COST			LABOR	MATERIAL	SUB
			L	M	\$			
Wood Blocking @ Parapets / Edge of Bldg								
Stambaugh Bldg = 460 lf x 14' high								
2- 2 x 8 x 520 lf = 1040 x 5% =	1100	lf	1.5	1.28		1,620	1,375	
Textbook Bldg = 570 lf x 13'-4" high								
2- 2 x 6 x 240 lf = 1080 x 5% =	2000	lf	1.5	1		3,000	2,000	
2- 2 x 8 x 743 lf = 1486 x 5% =	1570	lf	1.5	1.25		2,355	1,963	
Wood Blocking @ Exterior Walls								
Stambaugh Bldg								
2- 2 x 8 x 130 lf = 260 x 5% =	275	lf	1.5	1.25		413	344	
Textbook Bldg								
2- 2 x 8 x 630 lf = 630 x 5% =	665	lf	1.5	1.28		998	631	
Roofing fix Perimeter								
Stambaugh Bldg = 400 lf @ Perimeter	400	lf	3	5		1,200	2,000	
Textbook Bldg = 570 lf @ Perimeter	570	lf	3	5		1,710	2,850	
TOTAL						11,326	11,383	

22,000

Sheet No. 2

Item:

WOOD BLOCKING

DESCRIPTION OF IMPROVEMENTS (continued)

TEXAS DESCON L.P. MOALLEN TEXAS		PROJECT:		THOMAS JEFFERSON EARLY COLLEGE				
DESCRIPTION	QUANTITY	UNIT	UNIT COST			LABOR	MATERIAL	SUB
			L	M	S			
Metal Studs, Dense Glass & Gyp Bd (Work in 4 Weeks)								
Stambaugh Building								
Material								
6" 16 Ga. Metal Studs @ Perimeter Walls	1				6873.98			6,874
R-19 Batt Insulation	1				1333.41			1,333
Type X 5/8" Hi-Impact Gyp Bd	1				4553.46			4,553
1/2" Dense Glass Gold Sheathing	1				3036.64			3,036
Labor								
6" 16 Ga. Metal Studs @ Perimeter Walls	1				2881.38			2,881
R-19 Batt Insulation	1				588.43			588
Type X 5/8" Hi-Impact Gyp Bd	1				3914.17			3,914
1/2" Dense Glass Gold Sheathing	1				2476.1			2,476
Textbook Building								
Material								
6" 16 Ga. Metal Studs @ Perimeter Walls	1				17980.4			17,980
R-19 Batt Insulation	1				2666.83			2,667
Type X 5/8" Hi-Impact Gyp Bd	1				9106.91			9,107
1/2" Dense Glass Gold Sheathing	1				6071.26			6,071
Labor								
6" 16 Ga. Metal Studs @ Perimeter Walls	1				8130.18			8,130
R-19 Batt Insulation	1				1116.86			1,117
Type X 5/8" Hi-Impact Gyp Bd	1				8009.32			8,009
1/2" Dense Glass Gold Sheathing	1				5339.54			5,340
TOTAL								64,048
								64,048
Sheet No. <u>3</u>			Item:		METAL STUDS, GYP. BD & DENSE GLASS			

DESCRIPTION OF IMPROVEMENTS (continued)

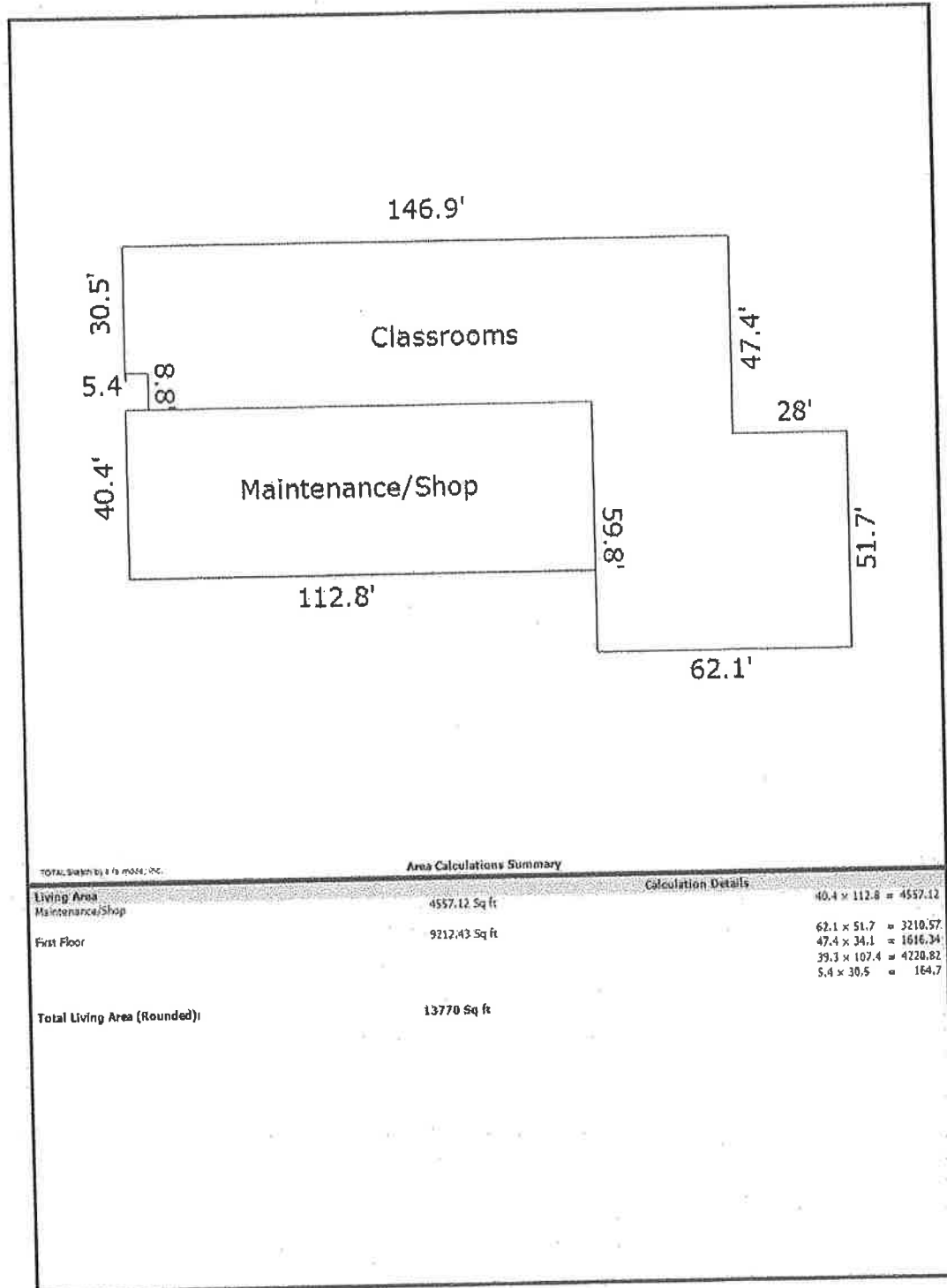
TEXAS DESCON L.P. McALLEN TEXAS		PROJECT :		THOMAS JEFFERSON EARLY COLLEGE				
DESCRIPTION	QUANTITY	UNIT	UNIT COST			LABOR	MATERIAL	SUB
			L	M	S			
Painter - Tape, Float & Texture Walls VS CMU Paint								
Stambaugh Building								
Credit for CMU Painting, - 400 lf x 10' = 4000	4000	sf	-0.4	-0.4		(1,600)	(1,600)	
Add for T.F.T & P., - 400 lf x 10' = 4000	4000	sf	0.75	0.75		3,000	3,000	
Textbook Building								
Credit for CMU Painting, - 570 lf x 10' = 5700	5700	sf	-0.4	-0.4		(2,280)	(2,280)	
Add for T.F.T & P., - 570 lf x 10' = 5700	5700	sf	0.75	0.75		4,275	4,275	
Electrical								
Remove installed electrical conduit & Boxes	1	L.S.			4950			4,950
Reinstall Electrical conduit & Boxes	1	L.S.			4950			4,950
TOTAL						3,305	3,305	8,900
								16,690
Sheet No. 4		Item: PAINTING						

DESCRIPTION OF IMPROVEMENTS (continued)

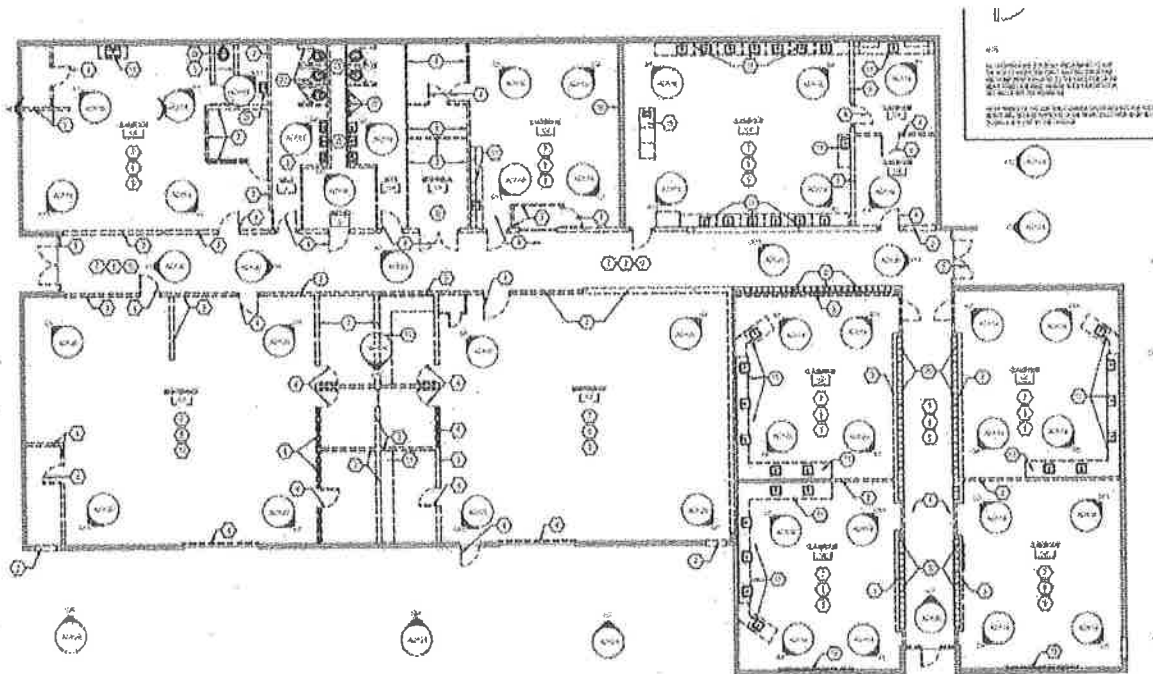
TEXAS DESCON L.P. McALLEN TEXAS		PROJECT:		THOMAS JEFFERSON EARLY COLLEGE				
DESCRIPTION	QUANTITY	UNIT	UNIT COST			LABOR	MATERIAL	SUB
			L	M	S			
Brick								
Stambaugh Bldg = 21,518 Bricks								
Textbook Bldg = 25,522 Bricks	1				23567			23,567
Brick Labor	1				30950.2			30,950
Brick Anchors	1				5385.8			5,386
Mortar Net	1				3559			3,559
Screws	1				700			700
Mortar	1				7429.96			7,430
Sand	1				2050.32			2,050
Rentals	1				2125			2,125
Overhead Profit	1				11812.5			11,813
Dampproofing								
Stambaugh Bldg = 400 lf x 14" high = 5600 sf	5000	sf	3	4		16,800	22,400	
Textbook Bldg = 570 lf x 13'-4" high = 7680 sf	7680	sf	3	4		22,800	30,640	
Flashing - Base, Roof & Door & Window Coping								
Stambaugh Bldg								
Base 400 lf x 2 T & B	800	lf	3	2		2,400	1,000	
Roof 400 lf x 2 T & B	800	lf	3	2		2,400	1,000	
Doors / Windows 200 lf x 2 T & D	400	lf	3	2		1,200	800	
Textbook Bldg								
Base 570 lf x 2 T & B	1140	lf	3	2		3,420	2,280	
Roof 570 lf x 2 T & B	1140	lf	3	2		3,420	2,280	
Doors & Windows 190 lf x 2 T & D	380	lf	3	2		1,140	760	
3/4" Plaster								
Stambaugh Bldg = 400 lf x 14" high = 5600 sf	5000	sf			8			28,000
Textbook Bldg = 570 lf x 13'-4" high = 7680 sf	7680	sf			5			38,300
TOTAL						53,700	62,300	154,724
								270,844
Sheet No. <u>6</u>			Item: <u>FINISH</u>					

Agulre & Patterson, Inc.
Appraisal Report of the Textbook Building

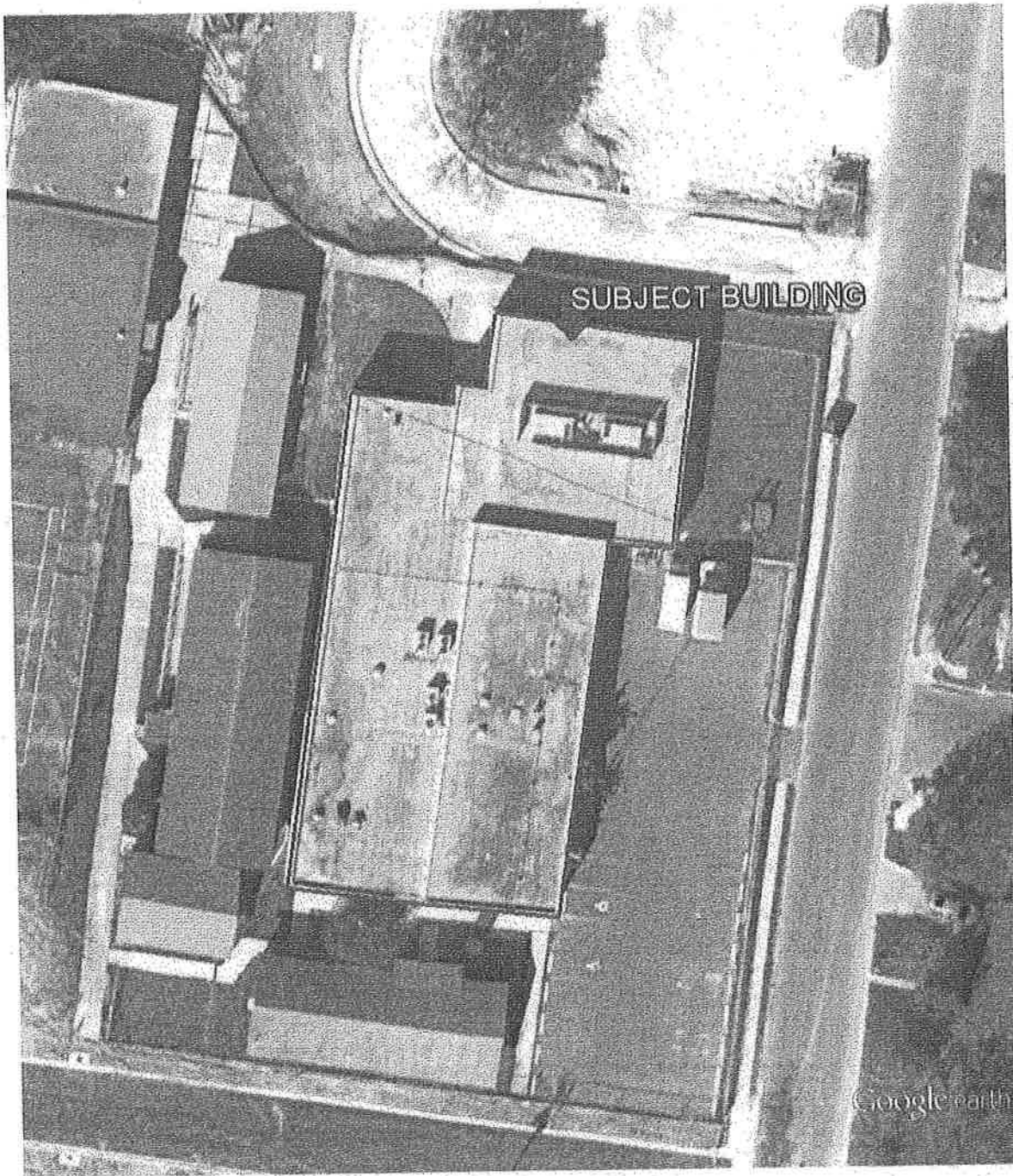
IMPROVEMENT SKETCH



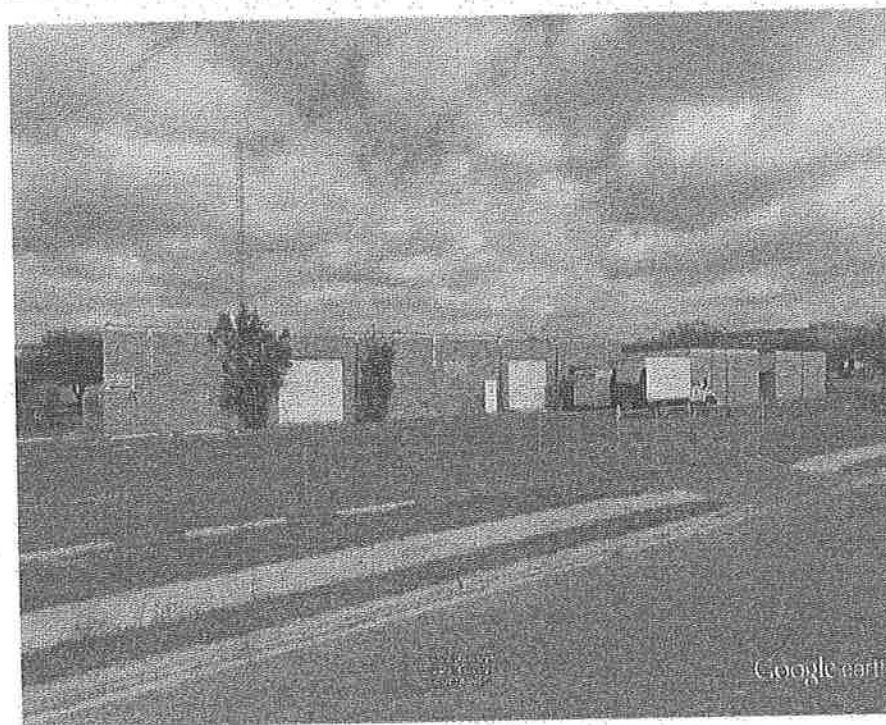
SUBJECT INTERIOR FLOOR PLAN



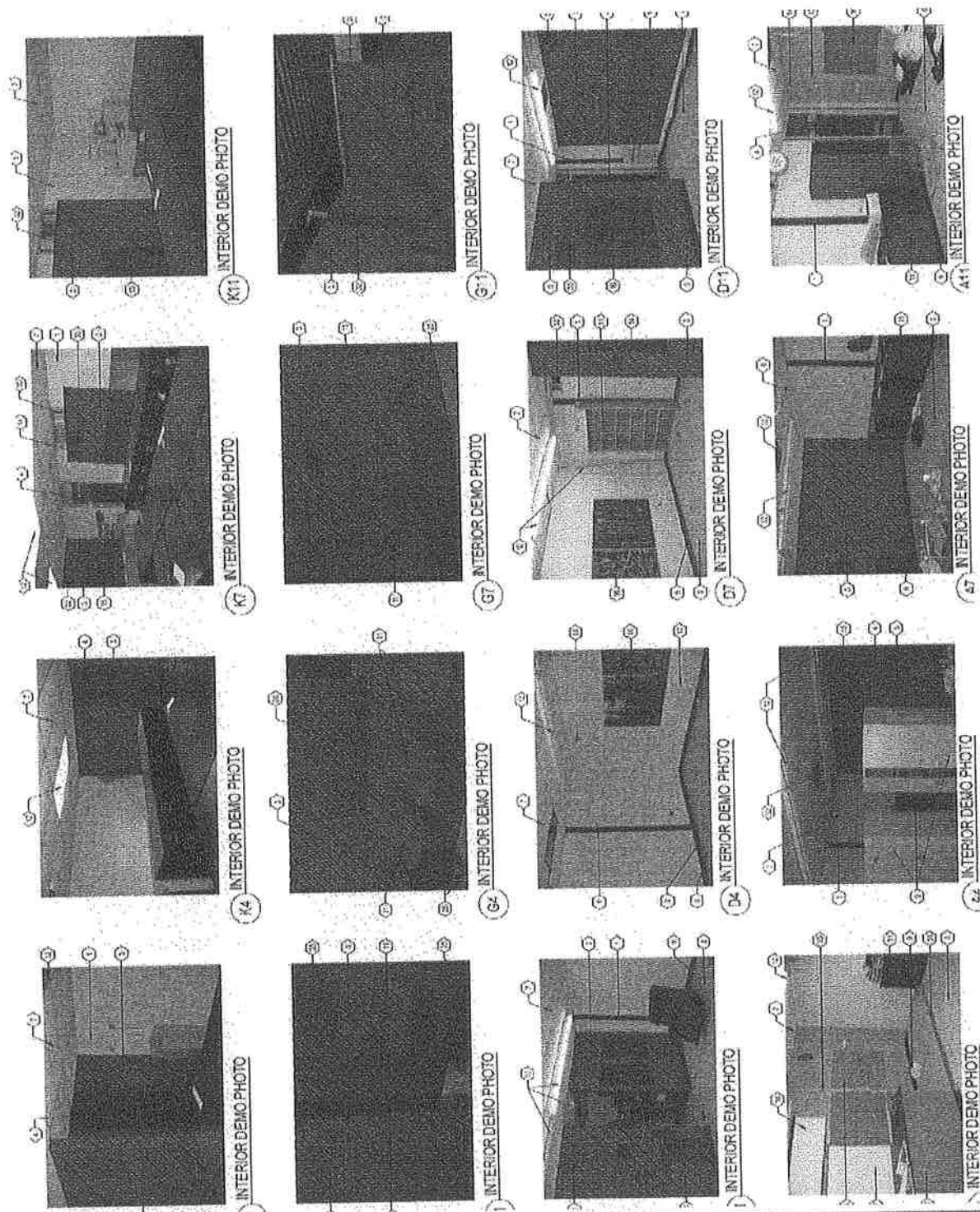
GOOGLE EARTH AERIAL PHOTOGRAPH
(Imagery date 12/25/2010)



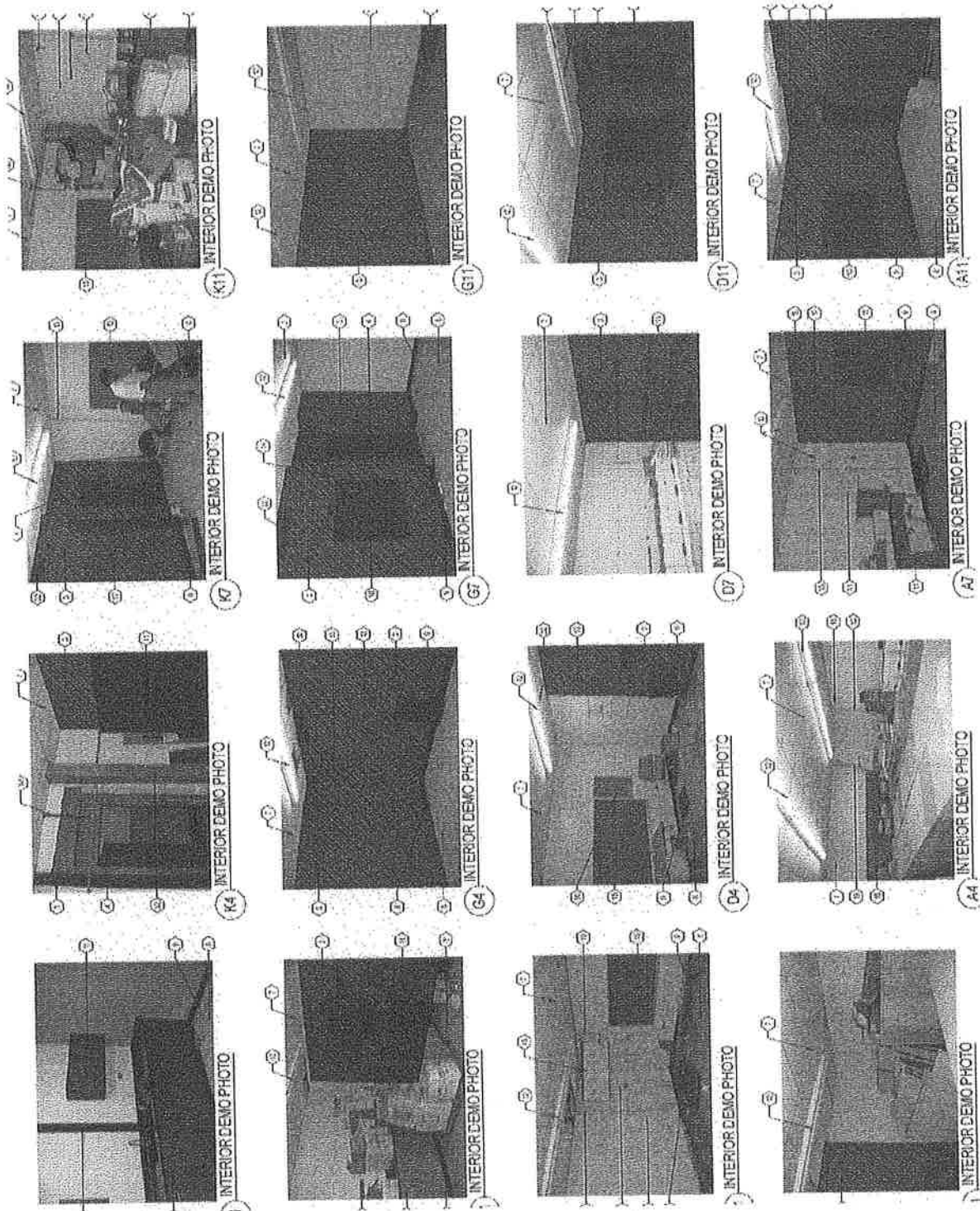
SUBJECT PHOTOGRAPHS
(Source: Google Earth)



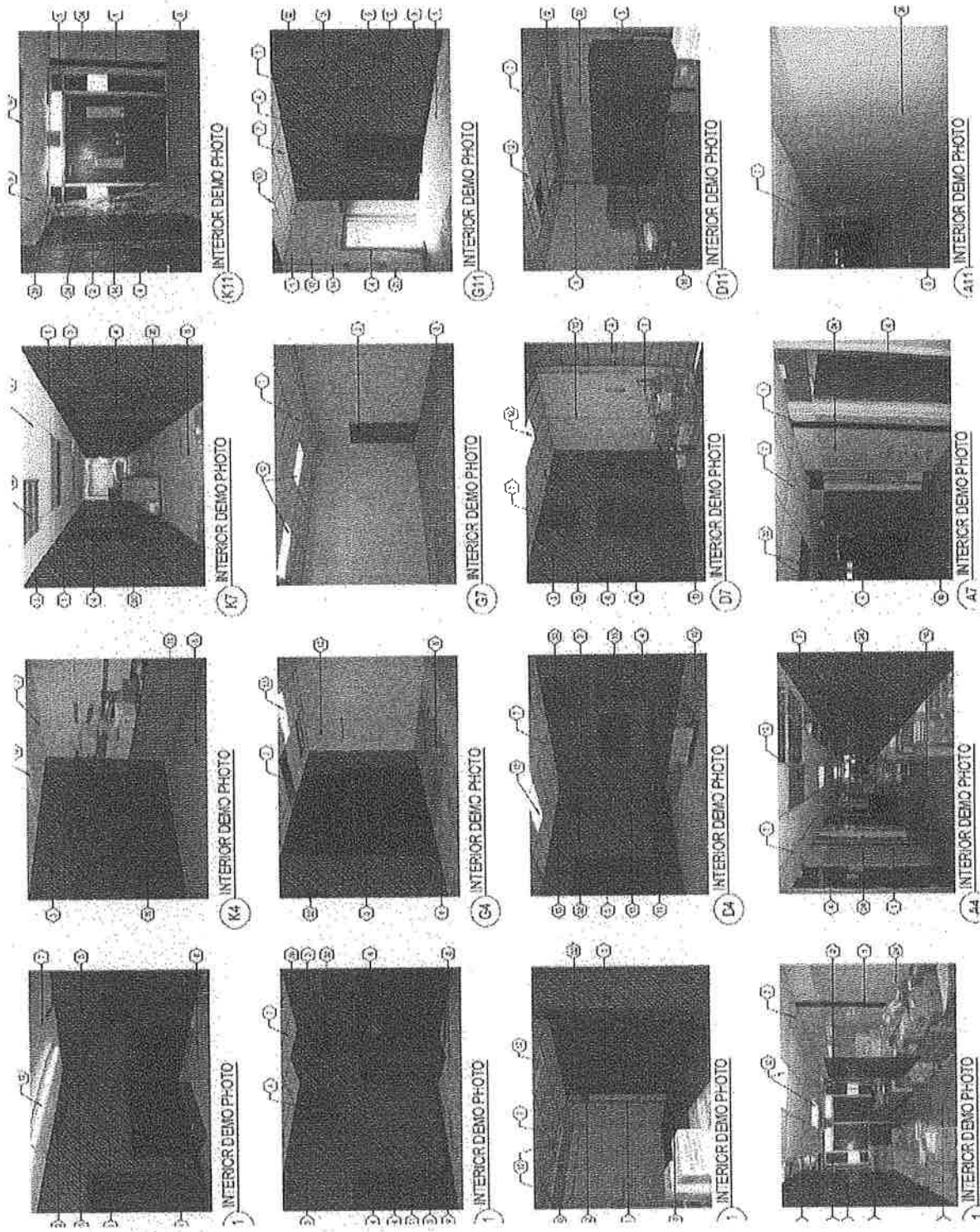
SUBJECT PHOTOGRAPHS
(Source: ARO Architect's Demolition Photos Dated 2/6/2012)



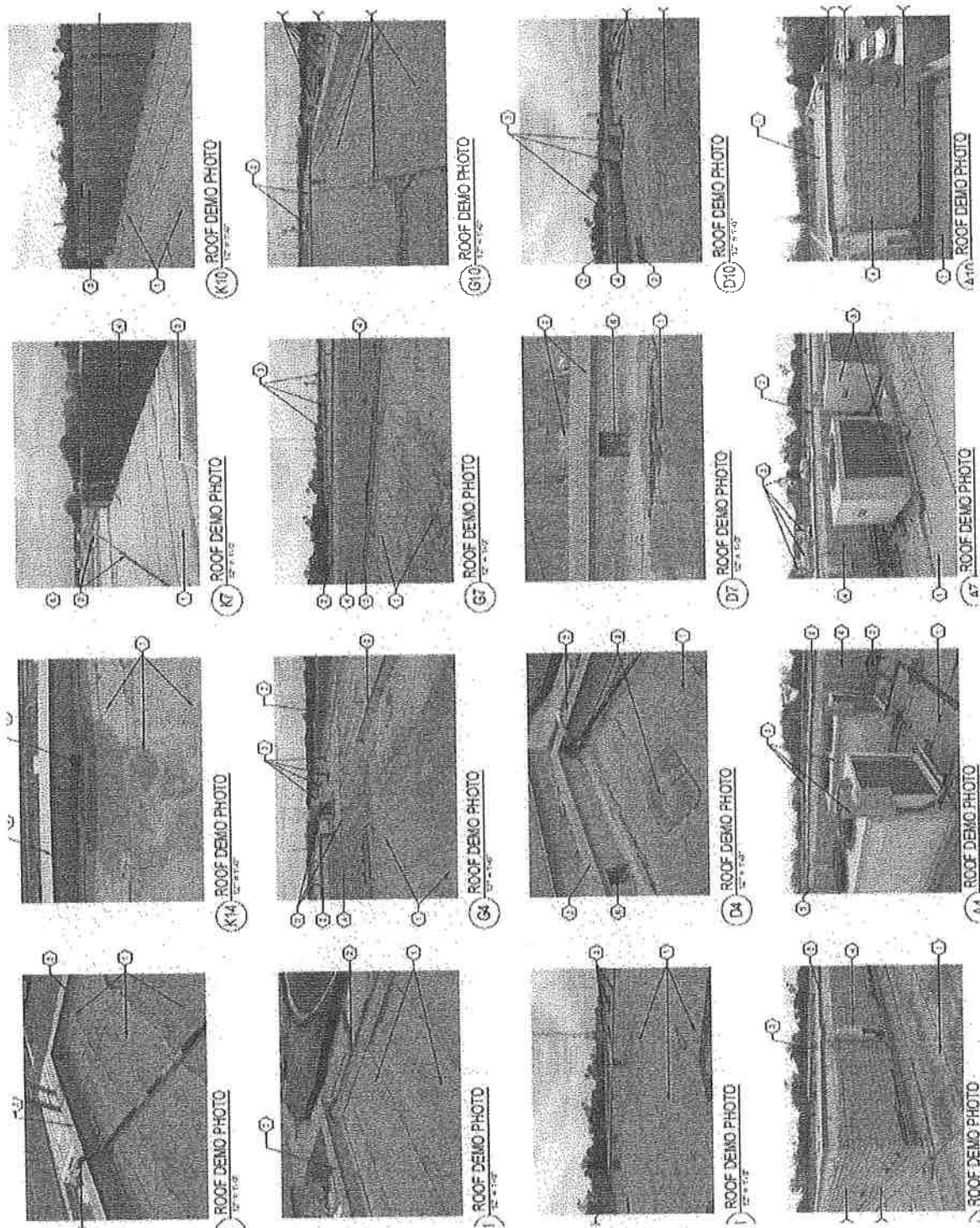
SUBJECT PHOTOGRAPHS (continued)



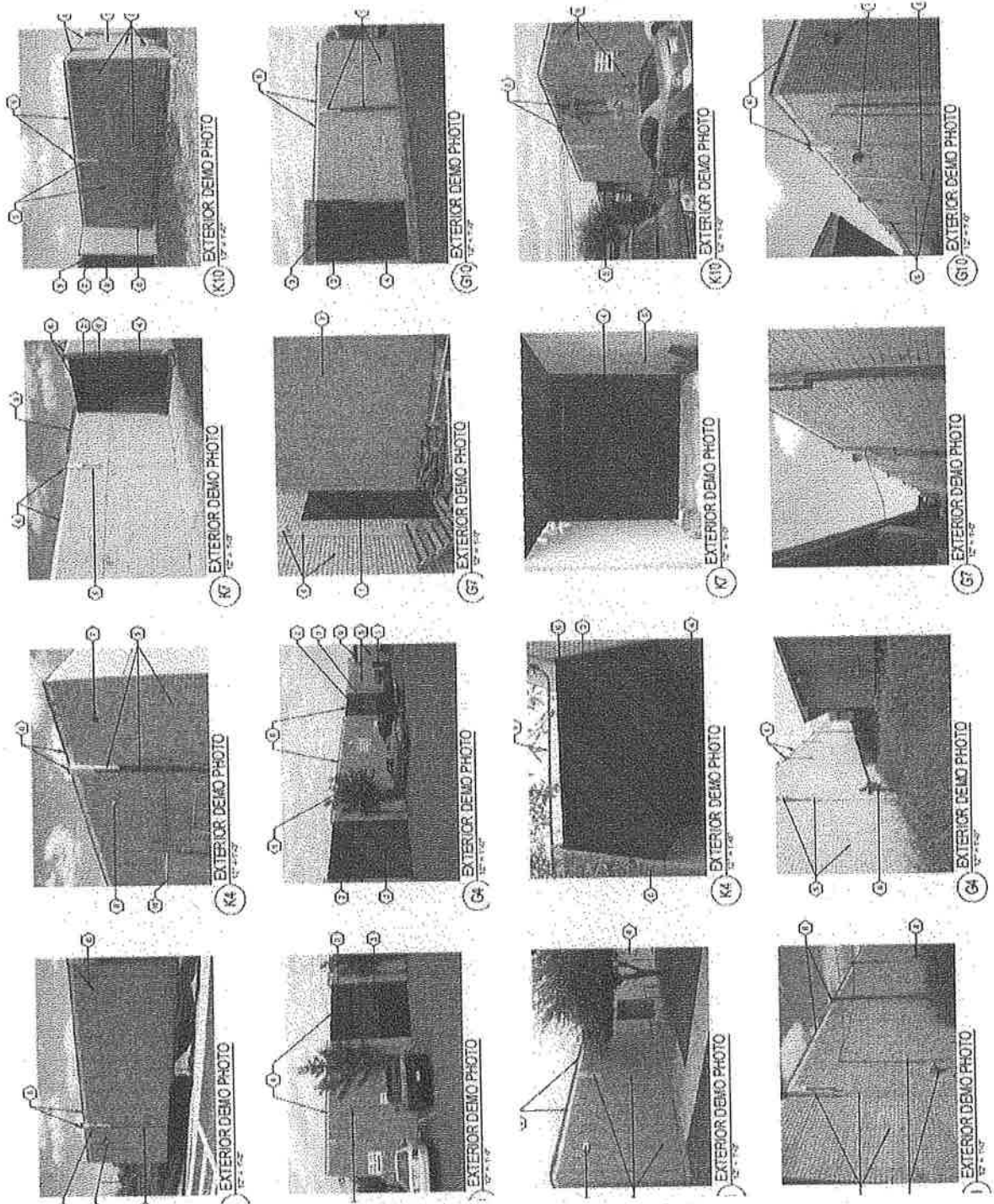
SUBJECT PHOTOGRAPHS (continued)



SUBJECT PHOTOGRAPHS (continued)



SUBJECT PHOTOGRAPHS (continued)



ANALYSIS AND STATEMENT OF HIGHEST AND BEST USE

Definition and Scope

Highest and best use may be defined as the reasonable and probable legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value.

The theoretical focus of highest and best use analysis is on the potential uses of the land as though vacant. In practice, however, the contributory value of the existing improvements and any possible alteration of those improvements are also important in determining highest and best use and, by extension, in developing an opinion of the market value of the property.

The first definition applies specifically to the highest and best use of land or site as though vacant. It is to be recognized that in cases where a site has existing improvements on it, the highest and best use may very well be determined to be different from the existing use. The existing use may represent an interim use, which begins with the land value for the new highest and best use and adds the contributory value of the current improvements until the new highest and best use can be achieved.

An additional implication is that the determination of highest and best use results from the appraiser's judgment and analytical skill. The use determined from analysis represents an opinion, not a fact to be found. In appraisal practice the concept of highest and best use represents the premise upon which value is based.

The first type of highest and best use - highest and best use of land or a site as though vacant - assumes that a parcel of land is vacant or that it can be made vacant through the demolition of any improvements. The question to be answered in the analysis of this type of highest and best use is: if the land is (or was) vacant, what use should be made of it? That is, what type of building or other improvements (if any) should be constructed on the land? When a property's highest and best use can reasonably be forecast to change in the near future, the prevailing highest and best use is considered an interim use. For instance, the highest and best use of a farm in the path of urban growth would be interim use as a farm, with its future highest and best use as a potential residential subdivision. In certain cases, an appraiser's conclusion is that the highest and best use of a parcel of land is to be held vacant until price appreciates.

The second type of highest and best use - highest and best use of a property as improved - pertains to the use that should be made of the property, as it exists. Should a 30-year-old hotel building be maintained as it is, renovated, expanded, partly demolished, or any combination of

ANALYSIS AND STATEMENT OF HIGHEST AND BEST USE (continued)

these? Or should it be replaced with a use different in type or intensity? The use that maximizes the investment property's net operating income (NOI) on a long-term basis is its highest and best use.

Application

Highest and best use analysis builds on the conclusions of market/marketability analysis. The analysis of the land as though vacant focuses on alternative uses, with the appraiser testing each reasonably probable use for 1) legally permissibility 2) physical possibility, 3) financial feasibility, and 4) maximally productivity. In contrast, the appraiser applies the four tests in the analysis of the property as improved, but the focus is not on alternative uses but on three possibilities: continuation of the existing use, modification of the existing use, or demolition and redevelopment of the land. These criteria should usually be considered sequentially; it makes no difference that a use is financially feasible if it is physically impossible to construct an improvement or if such a use is not legally permitted. Only when there is a reasonable possibility that one of the prior unacceptable conditions can be changed is it appropriate to proceed with the analysis. (The Appraisal of Real Estate, Thirteenth Addition).

1) Legally Permissible: The subject property is zoned for school use by the City of Pharr. The surrounding land use patterns are mixed residential, commercial, and light industrial in nature.

2) Physically Possible: Although no land is included in the retrospective value opinion, it is assumed that sufficient site area would be available for either residential, commercial, or light industrial use.

3) Financially Feasible: The amount of net income, which can be produced, should exceed the combined operating expenses, financial expenses, and capital amortization.

As of the effective date of the retrospective value opinion, the subject building was not occupied and was used primarily for storage. With respect to the highest and best use, the appraisers must consider if marketable alternate uses are economically feasible considering the condition of the subject improvements.

Generally speaking, possible alternate uses for classroom buildings include but are not limited to offices, child and adult day care centers, charter schools, churches, fitness centers, rehab facilities, call centers, manufacturing buildings, or warehouse storage. The use that is most likely to

ANALYSIS AND STATEMENT OF HIGHEST AND BEST USE (continued)

be considered takes into consideration the existing condition of the improvements as of the effective date, and specifically the cost involved in converting the subject building to one of the alternate uses. In other words, the question to be answered with respect to highest and best use is "what use would a buyer consider?" In this regard, two options exist for a buyer: acquire the building in its existing condition and make no improvements, or invest capital to convert the building into a particular use.

As of the effective date, the building (although originally designed for classroom use) was unoccupied and primarily utilized as storage. Indeed, storage would be a use that would require little to no capital investment. This use would not require repair of the physical deficiencies nor would it require an asbestos abatement and remediation.

With regard to any of the other uses, however, the existing condition and more specifically the ACM and physical defects that are likely to have been discovered by a prudent buyer, would be taken into consideration. The cost for abatement was approximately \$59,000.00. The cost to cure the physical defects was approximately \$332,510.00. Combined these costs result in an estimated cost of approximately \$28.43 per square foot. In addition to this cost, an investor looking to convert the subject building into say a day care center would need to invest this capital in addition to the cost for necessary finish-out of the interior into the desired alternate use.

It is the appraisers' opinion that given the age of the building such an investment would not be considered economically feasible. As such, uses that would require the repair of the physical deficiencies or ACM abatement are eliminated. Of the possible alternate uses for classrooms, the only option which would be considered financially feasible would be the use that requires no significant capital investment. As such, use as warehouse storage is considered financially feasible.

4) Maximally Productive: Among the financially feasible uses, the use that provides the highest rate of return, or value, is the highest and best use. The appraiser estimates the maximally productive use of the subject is for warehouse storage use.

Highest & Best Use - As Improved

It is the appraisers' opinion that given the current condition of the building, the highest and best use of the subject building would be for warehouse storage use.

APPRAISAL PROCESS

An appraisal is an estimate of value; it is an opinion of value. Its accuracy depends on the basic competence and integrity of the appraiser and on the soundness and skill by which he processes the data. The professional appraiser seeks current facts and seeks to be practical. The appraiser's opinion must be without bias. As with other types of "markets" the real property appraiser does not make the market, but rather interprets the market.

The three classic approaches to value, namely the Cost Approach, the Income Capitalization Approach, and the Sales Comparison Approach, each discussed separately below, are all comparative approaches in that the basic data comes from direct comparisons in the market, indirect comparisons in the market, and/or the appraiser's judgment which is based on market experience.

In the Cost Approach, the cost to reproduce the property at the date of the appraisal, less an appropriate allowance for depreciation (physical deterioration, functional obsolescence, and economic obsolescence) is made by market comparisons of cost and depreciation. The Cost Approach is frequently applied to special-purpose or specialty properties, or other properties that are not frequently exchanged in the market or for which there is not sufficient comparable market data. *The subject is not new construction or special purpose, and depreciation exceeds 75%. As such, the Cost Approach is not considered to provide a reliable indication of value.*

In the Income Capitalization Approach, the projected operating experience is estimated from comparable market data. Gross rental schedules, vacancy and collection losses, fixed expenses, operating expenses, and reserves are estimated and result in an estimate of net income. This net income is converted to an estimate of value by a capitalization process. The capitalization rate (Interest rate and recapture rate) is based on demonstrated rates found in the market. The method and technique of capitalization is determined by the nature of the property in the market.

In the Sales Comparison Approach, the subject property is compared to sales of properties within the similar highest and best use. The sales are analyzed to bring out similar characteristics to common denominators. Such common denominators may include number of units, number of rooms, square feet, front feet or a gross rent multiplier. Where necessary, adjustments are made to allow for differences of date of sale, location, size of property, and other factors. The Sales Comparison Approach is developed within this appraisal.

INCOME CAPITALIZATION APPROACH

Definition and Scope

The Income Capitalization Approach is defined as follows: "The income capitalization approach to value consists of methods, techniques, and mathematical procedures that an appraiser uses to analyze a property's capacity to generate benefits (i.e., usually the monetary benefits of income and reversion) and convert these benefits into an indication of present value."⁴ The process of discounting income expectancies to a present worth estimate is called "capitalization". This present worth estimate, the result of the capitalization process, is the amount that a prudent, typically informed purchaser would be willing to pay at a fixed time for the right to receive the income stream produced by a particular property.

Steps in Applying the Income Capitalization Approach

In order to produce a reliable value estimate through the Income Capitalization Approach, the appraiser will attempt to develop the following four basic steps:

1. Estimate the Potential Gross Income;
2. Estimate allowances for vacancies and other losses to determine the Effective Gross Income;
3. Estimate the Operating Expenses to determine the Net Operating Income; and
4. Select the appropriate capitalization process in order to determine the final value estimate.

Contract Rent

The subject property is owner occupied.

Comparable Rental Data

A survey of comparable properties is considered appropriate. The following rent comparables represent the most recent, most similar rents available and are presented in order to estimate the market rent for the subject property.

⁴ Appraisal Institute, *The Appraisal of Real Estate*, Thirteenth Edition, 2008, pg 445.

INCOME CAPITALIZATION APPROACH (continued)



COMPARABLE RENT #1

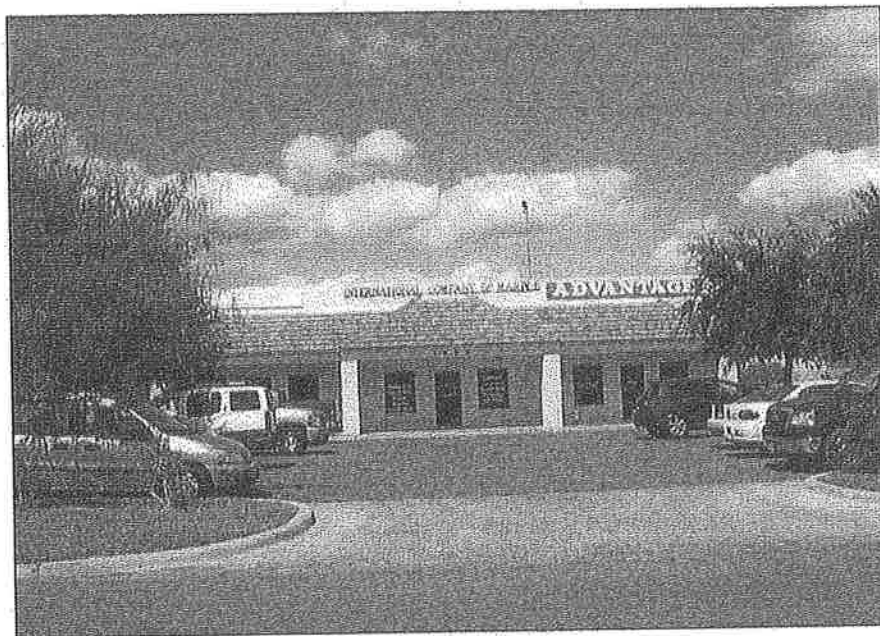
Location: 1108 Albrad Avenue, Pharr, Texas

Description: An approximate 12,000 square foot grade level metal warehouse partitioned for dual-tenant use. The improvements were constructed in approximately 1998. Overall average rent is \$0.38 per square foot on a triple net lease basis. LTB ratio 3.7:1.

Lessor: JMA Enterprises, Inc.

Lessee: ESP Petro Chemicals, Inc. and Odessa Pumps and Equipment, Ltd.

INCOME CAPITALIZATION APPROACH (continued)



RENT COMPARABLE #2

Location: 1209 E. Jasmine Avenue, McAllen, Texas

Description: Single-story, block and steel multi-tenant office/warehouse; built new in 2001; approximately 7,800 square feet total; 35% office area; renting for an average of \$0.63 per square foot per month on a gross lease basis. Land to building ratio = 2.8:1.

Lessor: Juan Manuel Garza

Lessee: Advantage DME, International Company of Marble, and Interceramic Tile & Stone.

INCOME CAPITALIZATION APPROACH (continued)



RENT COMPARABLE #3

Location: 920 Ferguson Avenue, Pharr, Texas

Description: An approximately 6,000 square foot grade-level metal warehouse; effective age of 10 years; average condition and quality; currently renting for \$0.58 per square foot per month on a triple net lease basis. Land to building ratio = 6.4:1.

Lessor: Wilkins Investments, Ltd.

Lessee: JD Krane Flooring

INCOME CAPITALIZATION APPROACH (continued)

Comparable Rent Grid

Subject: The Textbook Building

Adjustment	Subject	Rent 1	Rent 2	Rent 3
Rent/SF		\$0.38	\$0.63	\$0.58
SF Size	13,770	12,000 0%	7,800 0%	6,000 0%
Age	30 Eff.	10 Eff. -20%	10 Eff. -20%	10 Eff. -20%
Quality	67% climate control	23% CC 7%	35% CC 3%	35% CC 3%
Lease		NNN 0%	NNN 0%	NNN 0%
Net Adjustments		-13%	-17%	-17%
Adj. Value/Sq Ft		\$0.33	\$0.52	\$0.48

Explanation of Adjustments

Three comparable facilities are presented. The rents presented indicate an adjusted rental rate between \$0.33 to \$0.52 per square foot per month on a triple net lease basis. Adjustments are based on paired analysis tempered by the appraisers' knowledge of the market area. Age is adjusted based on the effective age of the subject and comparables at 1% per year. Quality adjustment recognizes overall construction quality and additional climate control area. The comparables are considered equal in other factors.

INCOME CAPITALIZATION APPROACH (continued)

Greatest weight is accorded the approximate mean of the range, with \$0.43 per square foot on a triple net lease basis deemed reasonable. The subject's potential gross income is estimated as follows:

Subject Property				
13,770	Sq. Ft. @	\$0.44	per Sq. Ft. =	\$6,058.80
				x 12 months
Annual Potential Gross Income				<u>\$72,705.60</u>

Allowance for Vacancy and Collection Loss

Vacancy and collection losses for the subject are estimated at 10%. Rates for industrial space throughout the area are reported at a range from 5% to 15% by NAI Rio Grande Valley and RealtyRates.com.

Operating Expenses

A historical accounting of actual expenses was not available. The appraisers have conducted a market study of operating expenses for similar facilities. In a triple net lease scenario, tenants pay a base rent, utilities, taxes, and insurance. The lessor is responsible for major exterior maintenance, legal/accounting fees, vacancy/loss collection, and reserves for replacements. The operating expenses are listed as follows:

Taxes – Annual taxes for the subject are estimated based assessments for properties of similar age with similar highest and best use. Taxes are the responsibility of the tenant in a triple net lease scenario. An allowance of \$1,000.00 per year recognizes the vacancy factor.

Insurance – Fire and extended coverage insurance is primarily the responsibility of the tenant in a net lease scenario and is considered as such in the appraisal of the subject. Insurance is estimated based on an estimated annual cost of approximately \$3,300.00 per year. An allowance of \$3300.00 per year is deemed reasonable recognizing the vacancy factor.

Property Management & Administration - The management fee is estimated to be approximately 5% of the effective gross income. Property managers in the area typically charge from 2% to 10% for management fees, with the high end usually charged for smaller properties. Management fees are estimated based on investment potential from an absentee landlord position.

Maintenance – This item is an allowance for exterior repairs, needed maintenance items, yard care etc. and is typically negotiated in as many different manners as there are leases. An allowance of \$3,500.00 is deemed reasonable.

INCOME CAPITALIZATION APPROACH (continued)

Utilities – These expenses are estimated for water/sewer/trash collection. Typically the responsibility of the tenant, an allowance of \$1,500.00 is considered for the vacancy factor.

Legal/Accounting - This expense is estimated for bookkeeping, etc. and is based on competing comparable facilities. An allowance of \$1,000.00 per year is within a range considered to be typical for this item.

Reserves for Replacements - This account is established to replace short-lived items of real estate such as roof, flooring, ceilings, plumbing, electrical, parking, air conditioners, etc. Reserves for replacements are estimated at \$0.30 per square foot or \$4,100.00 per year based survey data obtained through RealtyRates.com.

Projected Operating Statement

Potential Gross Annual Income		\$	72,705.60
Less Vacancy & Collection Loss	10%	-	<u>7,270.56</u>
Effective Gross Income		\$	65,435.04
Less Annual Expenses:			
Taxes		\$	1,000.00
Insurance			330.00
Management	5%		3,271.75
Maintenance			3,500.00
Utilities			1,500.00
Legal/Accounting			1,000.00
Reserves for Replacements			<u>4,100.00</u>
Total Expenses	22.5%	\$	<u>14,701.75</u>
Net Operating Income		\$	50,733.29

Capitalization Analysis

Capitalization is the process of discounting net operating income to a present worth estimate. The capitalization rates at which income expectancies are discounted are influenced by the thinking and action of investors in the market place and conditions in the mortgage market.

The purchaser-investor must be compensated for giving up the use of his funds, for not choosing alternative investment opportunities, for undertaking the burdens of investment management, and for assuming the risks that actual income receipts will not materialize as forecasted. This

INCOME CAPITALIZATION APPROACH (continued)

necessary compensation is reflected in rates of capitalization or discounting determined largely by market competition. Because income receipts are normally forecast for a finite period, the purchaser-investor seeks a competitive return on the investment (representing the required compensation enumerated above) and a return of capital at the end of the projection period.

An overall rate of capitalization is the annual rate that expresses the relationship between net operating income and sale price. It contains provisions for a return on investments as well as provisions for capital recovery. The overall rate is utilized in "Direct Capitalization" which is applying the rate directly to the net operating income. The result is a value indication.

An overall capitalization rate may be developed through various techniques. The two most frequently used by this appraiser are: (1) Comparative or Market Method and (2) Yield Investment Method.

Whenever market data permits, it is best to avoid complex methods of income capitalization and use instead the Comparative or Market Method with an Overall Rate. The data requirements for the use of the Market Method of Capitalization are as follows:

1. Sale prices of similar competitive properties sold to the same type of purchaser-investor in arm's length open market transactions under market conditions similar to those affecting the subject property;
2. Properties with essentially the same physical and location characteristics as the subject (age, condition, site-improvements, etc.);
3. Similar terms of financing;
4. Similar terms of sale;
5. Income streams with the same risk and stability characteristics and the same income projection; and,
6. A similar capital recovery period and method of capital recovery.

Because of the potential complexities of Income Capitalization Analysis as a mechanical process, it is sometimes possible to lose sight of the fact that the basic valuation formula is both simple and straightforward. Essentially, investment analysis boils down to an inter-relation of three essential variables. They are as follows:

I = Net Operating Income

R = Overall Rate (Capitalization Rate)

INCOME CAPITALIZATION APPROACH (continued)

$V = \text{Value}$

The relation among these variables is as follows:

$$R = \frac{I}{V}$$

All other complications arise from the frequent necessity of deriving R indirectly and in part. However, it is possible to develop R directly through market evidence or the Direct Method of Capitalization. Aside from producing a value estimate more readily explained to a layman, the appraiser minimizes the risk of technical mechanical errors in calculations.

Mortgage and Equity Band of Investment Capitalization

Sometimes an overall capitalization rate cannot be derived directly from the market. Stringent data requirements must be met and most properties are purchased with debt and equity capital. An overall capitalization rate can be estimated if you satisfy the market return requirements of both debt (mortgage) and equity (owner's interest after all claims and liens have been satisfied). Lenders anticipate loaning with a competitive interest rate commensurate with the perceived risk of the investment of they will not make funds available. Lenders generally require that the loan principle be repaid through periodic amortization payments. Equity investors anticipate receiving a competitive equity cash return. The return is commensurate with the perceived risk or they will invest their capital elsewhere.

The mortgage capitalization rate (R_M) is the ratio of annual debt service to the principal amount of the mortgage loan. The rate established at inception of a mortgage is called the mortgage constant. The annual mortgage constant for a new loan is calculated by multiplying each period's payment by the number of payments per year and then dividing this amount by the amount of the loan. It should be noted that the mortgage capitalization rate (R_M) differs from the mortgage interest rate (Y_M).

The mortgage capitalization rate is a function of the interest rate, the frequency of amortization, and the amortization term of the loan. It is the sum of the interest rate and the sinking fund factor.

The equity investor seeks a cash return. The rate used to capitalize equity into income is called the equity capitalization rate (R_E). It is the ratio of the annual equity dividend to the amount of equity investment. For appraisal purposes, a property's equity capitalization rate is the anticipated